DOCKET

No. 13-720

Title:	Stephen Kimble, et al., Petitioners
	v.
	Marvel Entertainment, LLC, Successor to Marvel Enterprises, Inc.
Docketed:	December 17, 2013
Linked with 13A304	
Lower Ct:	United States Court of Appeals for the Ninth Circuit
Case Nos.:	(11-15605)
Decision Date:	July 16, 2013

Questions Presented

—Date—	——Proceedings and Orders——
Sep 23 2013	Application (13A304) to extend the time to file a petition for a writ of certiorari from October 14, 2013 to December 13, 2013, submitted to Justice Kennedy.
Sep 27 2013	Application (13A304) granted by Justice Kennedy extending the time to file until December 13, 2013.
Dec 13 2013	Petition for a writ of certiorari filed. (Response due January 16, 2014)
Jan 13 2014	Waiver of right of respondent Marvel Enterprises, Inc. to respond filed.
Jan 15 2014	Brief amici curiae of Center for Intellectual Property Research of the Indiana University Maurer School of Law, et al. filed.
Jan 22 2014	DISTRIBUTED for Conference of February 21, 2014.
Jan 23 2014	Response Requested. (Due February 24, 2014)
Feb 12 2014	Order extending time to file response to petition to and including March 26, 2014.
Feb 18 2014	Order further extending time to file response to petition to and including March 27, 2014.
Feb 24 2014	Brief amici curiae of Memorial Sloan-Kettering Cancer Center, et al. filed.
Feb 24 2014	Brief amicus curiae of The Intellectual Property Law Association of Chicago filed.
Mar 12 2014	Order further extending time to file response to petition to and including April 23, 2014.
Apr 23 2014	Brief of respondent Marvel Enterprises, Inc. in opposition filed.
May 12 2014	Reply of petitioners Stephen Kimble, et al. filed.
May 13 2014	DISTRIBUTED for Conference of May 29, 2014.
Jun 2 2014	The Solicitor General is invited to file a brief in this case expressing the views of the United States.
Oct 30 2014	Brief amicus curiae of United States filed.
Nov 18 2014	Supplemental brief of petitioners Stephen Kimble, et al. filed. (Distributed)
Nov 19 2014	DISTRIBUTED for Conference of December 5, 2014.
Dec 8 2014	DISTRIBUTED for Conference of December 12, 2014.
Dec 12 2014	Petition GRANTED.
Jan 20 2015	The time to file the joint appendix and petitioners' brief on the merits is extended to and including January 28, 2015.

Jan 26 2015	Joint appendix filed. (Statement of costs filed)
Jan 28 2015	Brief of petitioners Stephen Kimble, et al. filed.
Feb 2 2015	SET FOR ARGUMENT ON Tuesday, March 31, 2015
Feb 3 2015	Record requested from U.S.C.A. 9th Circuit.
Feb 3 2015	Brief amicus curiae of Association of the Bar of the City of New York in support of neither party filed.
Feb 3 2015	Record from U.S.C.A. 9th Circuit is electronic and located on PACER.
Feb 4 2015	Brief amicus curiae of American Intellectual Property Law Association in support of neither party filed.
Feb 4 2015	Brief amicus curiae of Licensing Executives Society (U.S.A. and Canada), Inc. in support of neither party filed.
Feb 4 2015	Brief amicus curiae of University of Massachusetts Biologic Laboratories filed.
Feb 4 2015	Brief amicus curiae of BioTime, Inc. filed.
Feb 4 2015	Brief amici curiae of Professor Robin Feldman, et al. in support of neither party filed.
Feb 4 2015	Brief amici curiae of the Intellectual Property Law Association of Chicago in support of neither party filed.
Feb 4 2015	Brief amicus curiae of Intellectual Property Owners Association filed.
Feb 4 2015	Brief amicus curiae of New York Intellectual Property Law Association ("NYIPLA") filed.
Feb 4 2015	Brief amici curiae of Center for Intellectual Property Research of the Indiana University Maurer School of Law, et al. filed.
Feb 4 2015	Brief amici curiae of Memorial Sloan-Kettering Cancer Center, et al. filed.
Feb 12 2015	CIRCULATED
Feb 27 2015	Brief of respondent Marvel Enterprises, Inc. filed. (Distributed)
Mar 4 2015	Brief amicus curiae of Nautilus, Inc. filed. (Distributed)
Mar 4 2015	Brief amicus curiae of Public Knowledge filed. (Distributed)
Mar 6 2015	Motion of the Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument filed.
Mar 6 2015	Brief amicus curiae of United States filed. (Distributed)
Mar 6 2015	Proposal to lodge copies of two letters from counsel for petitioners.
Mar 6 2015	Brief amicus curiae of William Mitchell College of Law Intellectual Property Institute filed. (Distributed)
Mar 6 2015	Brief amicus curiae of Washington Legal Foundation filed. (Distributed)
Mar 9 2015	Letter from counsel for respondent opposing petitioner's lodging proposal.
Mar 20 2015	Motion of the Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument GRANTED.
Mar 24 2015	Reply of petitioners Stephen Kimble, et al. filed. (Distributed)
Mar 31 2015	Argued. For petitioners: Roman Melnik, Los Angeles, Cal. For respondent: Thomas G. Saunders, Washington, D. C.; and Malcolm L. Stewart, Deputy Solicitor General, Department of Justice, Washington, D. C. (for United States, as amicus curiae.)
Jun 22 2015	Adjudged to be AFFIRMED. Kagan, J., delivered the opinion of the Court, in which Scalia, Kennedy, Ginsburg, Breyer, and Sotomayor, JJ., joined. Alito, J., filed a dissenting opinion, in which Roberts, C. J., and Thomas, J., joined.
Jul 24 2015	JUDGMENT ISSUED.

PETITION FOR WRIT OF CERTIORARI

13- No. 720

In The
Supreme Court of the United States

STEPHEN KIMBLE AND ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

ANTONIO R. DURANDO
6902 N. Table Mountain Road
Tucson, AZ 85718
(520) 243-3383

ROMAN MELNIK
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN & WEATHERWAX LLP
11400 W. Olympic Blvd., Ste. 400
Los Angeles, CA 90064
(310) 307-4500
melnik@glwllp.com

Counsel for Petitioners

December 13, 2013

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

QUESTION PRESENTED

Petitioners are individuals who assigned a patent and conveyed other intellectual property rights to Respondent. The court of appeals "reluctantly" held that Respondent, a large business concern, was absolved of its remaining financial obligations to Petitioners because of "a technical detail that both parties regarded as insignificant at the time of the agreement." App. 2-3; 23. Specifically, because royalty payments under the parties' contract extended undiminished beyond the expiration date of the assigned patent, Respondent's obligation to pay was excused under *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964), which had held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*."

A product of a bygone era, *Brulotte* is the most widely criticized of this Court's intellectual property and competition law decisions. Three panels of the courts of appeals (including the panel below), the Justice Department, the Federal Trade Commission, and virtually every treatise and article in the field have called on this Court to reconsider *Brulotte*, and to replace its rigid *per se* prohibition on post-expiration patent royalties with a contextualized rule of reason analysis.

The question presented is:

Whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

PARTIES TO THE PROCEEDINGS

There are no parties to the proceedings other than those listed in the caption.

However, it is Petitioners' understanding that Respondent Marvel Enterprises, Inc. has been succeeded by merger by an entity called Marvel Entertainment, LLC, and that the latter is wholly owned by The Walt Disney Company.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

PARTIES TO THE PROCEEDINGS ii

TABLE OF CONTENTS iii

TABLE OF AUTHORITIES vi

PETITION FOR A WRIT OF CERTIORARI 1

OPINIONS BELOW 1

JURISDICTION 1

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED 2

INTRODUCTION 2

STATEMENT 7

A. Factual background 7

B. The district court decision 9

C. The Ninth Circuit decision 10

REASONS FOR GRANTING THE PETITION ... 12

I. The Court Should Grant This Petition To Reconsider *Brulotte* And Reject Its Rigid *Per Se* Prohibition On Post-Expiration Patent Royalties 12

A. The Courts Of Appeals, The Justice Department, The Federal Trade Commission, And The Academic And Professional Literature All Have Called On This Court To Overrule *Brulotte* 12

TABLE OF CONTENTS – Continued

Page

B. *Brulotte* Should Be Revisited Because It Incorrectly Conflates Patent Royalties And Patent Rights, Prohibits Procompetitive Licensing Practices, And Relies On Outdated Assumptions 16

1. Post-Expiration Patent Royalties Do Not Temporally Extend Patent Rights..... 17

2. *Brulotte* Suppresses Innovation By Proscribing Procompetitive Licensing Practices 22

3. *Brulotte* Relies On The Outdated Irrebuttable Presumption That Patents Confer Market Power 30

II. This Case Presents A Clean Vehicle For Reconsidering *Brulotte* 35

III. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte*..... 35

CONCLUSION..... 38

APPENDIX

United States Court of Appeals for the Ninth Circuit, Opinion, Filed July 16, 2013.....App. 1

United States District Court, District of Arizona, Opinion and Order, Filed March 2, 2010 .....App. 27

TABLE OF CONTENTS – Continued

Page

United States District Court, District of Arizona, Report and Recommendation, Filed December 2, 2009 ..... App. 46

Text of United States Supreme Court Opinion, *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) ..... App. 73

TABLE OF AUTHORITIES

Page

CASES

Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found., 402 U.S. 313 (1971) 36

Brulotte v. Thys Co., 379 U.S. 29 (1964) ..... *passim*

Delaney v. Marchon, Inc., 627 N.E.2d 244 (Ill. App. Ct. 1993) 31

Ill. Tool Works, Inc. v. Indep. Ink, Inc., 547 U.S. 28 (2006) 6, 32, 37

Indus. Promotion Co. v. Versa Prods., Inc., 467 N.W.2d 168 (Wis. Ct. App. 1991) 31

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) 36

Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877 (2007) 6, 22, 29, 37

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014 (7th Cir. 2002) ..... *passim*

State Oil Co. v. Khan, 522 U.S. 3 (1997) 37

Zila, Inc. v. Tinnell, 502 F.3d 1014 (9th Cir. 2007) 15

STATUTES

35 U.S.C. §154 (2013) 36

35 U.S.C. §271(d)(5) (2013) 6, 32

TABLE OF AUTHORITIES – Continued

Page

OTHER AUTHORITIES

ABA Section of Antitrust Law, Intellectual Property Misuse: Licensing and Litigation (2000) 24, 26

Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* (3d ed. 2011 & Supp. 2013) 14, 18, 29

Ian Ayres & Paul Klemperer, *Limiting Patentees' Market Power without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 Mich. L. Rev. 985 (1999) 13, 24

Christina Bohannan, *IP Misuse as Foreclosure*, 96 Iowa L. Rev. 475 (2011) 20, 29

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marq. Intell. Prop. L. Rev. 1 (2011) 21, 24, 25

Thomas F. Cotter, *Four Questionable Rationales for the Patent Misuse Doctrine*, 12 Minn. J. L. Sci. & Tech. 457 (2011) 14, 29, 31

Thomas F. Cotter, *Misuse*, 44 Hous. L. Rev. 901 (2007) 25

Jay Dratler, Jr., *Licensing of Intellectual Property* (1994 & Supp. 2013) 13, 20, 31

Rochelle Cooper Dreyfuss, *Dethroning* Lear: *Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677 (1986) 21, 28

TABLE OF AUTHORITIES – Continued

Page

Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning* Lear*? Incentives to Innovate After* MedImmune, 24 Berkeley Tech. L.J. 971 (2009) ..... *passim*

Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953 (2005) 15, 19, 27

Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties* in *Brookings Papers on Economic Activity: Microeconomics* 283 (1997) *available at* faculty.haas.berkeley.edu/shapiro/ninenono.pdf 13, 24

William C. Holmes, *Intellectual Property and Antitrust Law* (2013) 16, 30, 34

Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* (2d ed. 2013) ..... *passim*

William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* (Harvard Univ. Press 2003) 13, 34

Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599 (1990) 21, 29

A. Douglas Melamed & Ali M. Stoeppelwerth, *The* CSU *Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law*, 10 Geo. Mason L. Rev. 407 (2002) 34

TABLE OF AUTHORITIES – Continued

Page

Roger M. Milgrim & Eric E. Bensen, *Milgrim on Licensing* (2013) 13, 26

Raymond T. Nimmer & Jeff Dodd, *Modern Licensing Law* (2012) 14, 20, 33

Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325 (2005) 3

John W. Schlicher, *Licensing Intellectual Property: Legal, Business and Market Dynamics* (John Wiley & Sons, Inc. 1996) 19, 24, 29

John W. Schlicher, *Patent Law, Legal and Economic Principles* (2d ed. 2012) 13, 25

Harold See & Frank M. Caprio, *The Trouble with* Brulotte*: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813 (1990) 4, 14, 19, 24

Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 Hastings Sci. & Tech. L.J. 21 (2008) 4, 15, 20

U.S. Dep't of Justice and FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007) *available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf ..... *passim*

PETITION FOR A WRIT OF CERTIORARI

Petitioners Stephen Kimble and Robert Michael Grabb respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App. 1-26) is reported at 727 F.3d 856. The opinion of the United States District Court for the District of Arizona (App. 27-45) is reported at 692 F. Supp. 2d 1156. The report and recommendation of the magistrate judge (App. 46-72) also is reported at 692 F. Supp. 2d 1156 as an attachment to the district court opinion.

JURISDICTION

The Ninth Circuit entered judgment on July 16, 2013. On September 27, 2013, Justice Kennedy granted an extension until December 13, 2013 (No. 13A304) to file a petition for a writ of certiorari in this matter. This Court's jurisdiction is invoked under 28 U.S.C. §1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

None.

INTRODUCTION

Petitioners respectfully ask this Court to overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), App. 73-85, and to reject its *per se* prohibition on licensing arrangements involving post-expiration patent royalties. Petitioners are in good company. Three panels of the courts of appeals (including the Ninth Circuit panel below), the Justice Department, the Federal Trade Commission, and virtually every treatise and article in the field also have called on this Court to reconsider that decision. *See* Part I.A., *infra*.

The reason for this unanimity is straightforward. *Brulotte*, now approaching its half-century anniversary, has not withstood the test of time. Other competition law decisions from that era have been updated by this Court in light of a keener awareness of economics and real world business circumstances, with rigid *per se* rules, unequal to the realities of the marketplace, supplanted with analysis under the rule of reason. *See* Part III, *infra*. It is now *Brulotte*'s turn – as Judge Posner has observed, "*Brulotte* does not reflect the Supreme Court's current thinking about

competition and monopoly, but will continue to bind the lower courts until the Supreme Court decides to overrule it."[1]

1. In *Brulotte*, this Court held, as a matter of federal common law, that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Brulotte*, 379 U.S. at 32, App. 77. While a "patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly," the Court observed, "to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by t[y]ing the sale or use of the patented article to the purchase or use of unpatented ones." *Id.*, 379 U.S. at 33, App. 78. Consequently, the Court reasoned, the "exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when . . . the patent has entered the public domain." *Id.*, 379 U.S. at 33, App. 78-79.

As a consequence of *Brulotte*, "willing parties are prohibited from agreeing to [patent] royalties that accrue based on post-expiration use, even if that royalty structure is mutually agreed (a) without any coercion by the licensor, (b) as the most convenient

---

[1] Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325, 332 (2005).

method of measuring the value of the licensed rights, and (c) in exchange for a lower royalty rate overall."[2] In other words, *Brulotte* categorically "requires the licensor and licensee to amortize the present value of the license fee over the remaining years of the patent term, rather than over a longer period of years, even if a longer amortization period is optimal for the parties."[3]

Lower court decisions, antitrust enforcement agency analysis, and the academic and professional literature point to three reasons for overturning *Brulotte* and replacing its rigid *per se* prohibition on post-expiration patent royalties with a more nuanced rule of reason analysis.

a. First, there is pervasive agreement that the primary premise of *Brulotte* – that post-expiration patent *royalties* somehow extend the patent *right* into the post-expiration period – is fundamentally in error. *See* Part I.B.1., *infra*. Once a patent has expired, it can no longer be used to prevent anyone from practicing the invention – a fact of which the contracting parties are well aware in advance. License payment terms, consequently, reflect solely the anticipated value of the authorization to use the

---

[2] Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 Hastings Sci. & Tech. L.J. 21, 98 (2008).

[3] Harold See & Frank M. Caprio, *The Trouble with Brulotte: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 814 (1990).

patented invention prior to patent expiration. Even if certain patent royalty payments nominally are measured by post-expiration use, they nonetheless represent an amortization of the predicted value of the pre-expiration authorization. For example, the parties may agree to defer the start of the payment period, or to lower the royalty rate, in exchange for an extended payment period. Such a trade-off, however, merely calibrates the value of the pre-expiration authorization to the circumstances – it does not entail an extension in time of the patent right to exclude.

b. Second, as the Justice Department and FTC particularly have emphasized, *Brulotte*'s *per se* rule discourages technological innovation and does significant damage to the American economy by categorically proscribing licensing practices that are usually procompetitive and further the goals of the patent system. *See* Part I.B.2., *infra*. Licensing arrangements that permit post-expiration patent royalties can (i) serve as an efficient means of financing development of nascent technologies when the licensor is able to access capital more cheaply than the licensee, (ii) allow parties to balance and allocate the upside and downside risks of developing and commercializing new technology, (iii) lower prices and raise output during the patent term by means of an upfront royalty rate reduction, and (iv) also lower prices and increase competition *after* the end of the patent term by encouraging market entry by new, lower-priced competitors. *See id.* In the closely-related antitrust context, this Court consistently has emphasized that

per se prohibitions are reserved for practices that are "always or almost always" anticompetitive.[4] Against this background, the *Brulotte per se* rule makes little sense – post-expiration patent royalties should, as the Justice Department and the FTC have recommended, instead be reviewed "pursuant to the rule of reason." U.S. Dep't of Justice and FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 12 & 122 (Apr. 2007) ("2007 DOJ/FTC Report").[5]

c. Third, *Brulotte* should be revisited because a key assumption underlying that decision has since been abandoned. *See* Part I.B.3., *infra*. *Brulotte* – relying on an analogy to tying cases – irrebuttably presumed that merely having a patent conferred market power and inherently allowed the licensor to exercise improper leverage over the licensee. In recent years, however, both Congress and this Court pointedly have rejected the patent-equals-market-power presumption in the tying context. *See* 35 U.S.C. §271(d)(5); *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42, 45-46 (2006). This change in the law of tying has further undermined *Brulotte*, bolstering instead the view of the Justice Department and FTC that the "starting point for evaluating practices

---

[4] *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886-87 (2007) (internal quotation marks omitted).

[5] The 2007 DOJ/FTC Report is available at http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf.

that extend beyond a patent's expiration [should be] . . . analyzing whether the patent in question confers market power." 2007 DOJ/FTC Report at 12.

2. The doctrine of *stare decisis* does not counsel against overruling *Brulotte*, for three reasons. *See* Part III, *infra*. First, *Brulotte* itself is a judge-made rule, rather than an interpretation of the patent statute, and thus more amenable to reconsideration. Second, in the closely-related antitrust context, this Court consistently has emphasized that reappraisal of *per se* prohibitions particularly is warranted when the relevant government agencies and the academic literature, in light of intervening experience and analysis, urge application of the rule of reason. Finally, reliance interests are not significantly implicated by a reevaluation of *Brulotte*, as the only existing agreements likely to be impacted are either those – like the one at issue in this case – where the parties agreed to post-expiration royalty payments because they were unaware of *Brulotte*, or those where one of the parties purposely entered into such an agreement in the hope of later avoiding its contractual obligations on the basis of *Brulotte*.

STATEMENT

A. Factual background

Petitioner Stephen Kimble invented a toy that allows a child to role play as Spider-Man by mimicking that superhero's web-shooting abilities with foam

string. App. 3. In December 1991, Kimble obtained a patent on his invention. App. 3-4.

Meanwhile, in December 1990, Kimble had a meeting with the president of the predecessor in interest of Respondent Marvel Enterprises, Inc. ("Marvel") to discuss his then-pending patent application and other "ideas and know-how" related to the web-shooting toy. App. 4. The executive verbally agreed to compensate Kimble if the company used any of his ideas. *Id.*

In 1997, Kimble sued Marvel for breach of the verbal agreement and patent infringement, alleging that it had used his ideas in developing a toy called the Web Blaster without compensating him. App. 5. After the district court granted summary judgment of noninfringement, the jury found for Kimble on the contract claim. *Id.* Both parties appealed. *Id.*

In 2001, while the appeals were pending, Kimble, Petitioner Robert M. Grabb[6] and Marvel settled the 1997 litigation. App. 5-6. Pursuant to the 2001 settlement agreement, Petitioners assigned their patent to Marvel, as well as conveying the non-patent intellectual property rights to the toy ideas verbally exchanged between the parties during the December 1990 meeting. App. 9. In return, the agreement provided for a lump-sum payment and an additional

---

[6] Mr. Grabb had acquired an interest in Kimble's intellectual property rights prior to the 2001 settlement, and became a party to that agreement. App. 3 n.1; App. 29 n.1.

running royalty of 3% of "net product sales." App. 6. The settlement agreement did not provide for any reduction in the royalty rate after the assigned patent expired. *Id.* At the time the agreement was signed, neither party was aware of the *Brulotte* decision. App. 6-7 & n.3.

In 2008, after certain disagreements arose between the parties regarding royalty calculation methodology, Petitioners sued Marvel in state court for breach of the 2001 settlement agreement. App. 8. After removal to federal court, Marvel – which had since become aware of *Brulotte* as a result of sublicensing negotiations with a third party – counterclaimed, seeking a declaration that it would owe no further royalties after the assigned patent expired on May 25, 2010. App. 7-8 & n.3.

B. The district court decision

The district court, adopting the magistrate judge's report and recommendation, granted summary judgment to Marvel on its declaratory counterclaim. App. 37. In the absence of a royalty rate reduction at patent expiration or other indication to the contrary, the district court reasoned, the post-expiration royalty was at least partially attributable to the assigned patent rights, and hence entirely uncollectible under *Brulotte*, as the court was "'unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for

post-expiration royalties been divorced from the patent and nowise subject to its leverage.'" App. 35 & 37 & 58-60 (quoting *Brulotte*, 379 U.S. at 32, App. 77).

C. The Ninth Circuit decision

The Ninth Circuit "reluctantly" affirmed. App. 2-3. The 2001 settlement agreement, it held, conveyed "inseparable patent and non-patent rights" and contained neither a post-expiration discount "from the patent-protected rate" nor "some other clear indication that the [post-expiration] royalty at issue was in no way subject to patent leverage." App. 3; App. 18. Consequently, the panel was constrained to "presume that the post-expiration royalty payments . . . [were] for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*," rendering the obligation to make those royalty payments "unenforceable." App. 18. This was true even though "Kimble's primary leverage in negotiating the [2001] settlement was undoubtedly the jury verdict on the contract claim," as, "at the time of the negotiations, he [also] was [still] challenging the district court's decision and likely derived some amount of leverage from his patent infringement appeal." App. 22-23.

At the same time, the court of appeals noted that application of the *Brulotte per se* rule compelled an unjust result:

> We acknowledge [that] our application of the *Brulotte* rule in this case arguably deprives

> Kimble of part of the benefit of his bargain based upon a technical detail that both parties regarded as insignificant at the time of the agreement. . . . [¶] The patent leverage in this case was vastly overshadowed by what were likely non-patent rights, and Kimble may have been able to obtain a higher royalty rate had the parties understood that the royalty payments would stop when the patent expired.

App. 23-25.

Additionally, the Ninth Circuit observed that *Brulotte* was a "frequently-criticized" decision resting on a "counterintuitive" and "economically unconvincing" rationale:

> The Supreme Court's majority opinion [in *Brulotte*] reasoned that by extracting a promise to continue paying royalties after expiration of the patent, the patentee extends the patent beyond the term fixed in the patent statute and therefore in violation of the law. That is not true. After the patent expires, anyone can make the patented process or product without being guilty of patent infringement. The patent can no longer be used to exclude anybody from such production. Expiration thus accomplishes what it is supposed to accomplish. For a licensee in accordance with a provision in the license agreement to go on paying royalties after the patent expires does not extend the duration of the patent either technically or practically, because . if the licensee agrees to continue paying royalties after the patent expires the

> royalty rate will be lower. The duration of the patent fixes the limit of the patentee's power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.'

App. 24-25 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (Posner, J.)); App. 2; App. 15.

Consequently, while acknowledging that it was "bound by Supreme Court authority," the court of appeals called on this Court to reconsider *Brulotte,* noting that the Seventh Circuit, the Justice Department, the Federal Trade Commission, a previous Ninth Circuit panel, and numerous academic commentators similarly had done so. App. 2; App. 24-25 & n.7; App. 15-16.

REASONS FOR GRANTING THE PETITION

I. The Court Should Grant This Petition To Reconsider *Brulotte* And Reject Its Rigid *Per Se* Prohibition On Post-Expiration Patent Royalties.

A. The Courts Of Appeals, The Justice Department, The Federal Trade Commission, And The Academic And Professional Literature All Have Called On This Court To Overrule *Brulotte.*

Brulotte is the most widely criticized of this Court's intellectual property and competition law

decisions. Virtually every treatise in the field to address the issue, and every article on the subject, denounces *Brulotte* as fundamentally misguided and economically unsound, and calls for it to be overruled and for its rigid *per se* prohibition on post-expiration patent royalties to be replaced with a more nuanced rule of reason analysis. *See, e.g.*, 3 Roger M. Milgrim & Eric E. Bensen, *Milgrim on Licensing* §18.05 (2013) ("Milgrim Treatise") (*Brulotte* "is so illogical from the standpoint of any economic analysis that it inspires awe that legal reasoning can be so removed from the universe in which it occurs"); Jay Dratler, Jr., *Licensing of Intellectual Property* §4.04[5][d] (1994 & Supp. 2013) ("Dratler Treatise") ("[The] rule of *Brulotte* is an anachronism with little or no economic justification[,] . a lonely *per se* outpost in a rule-of-reason world."); William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 380 & 418 (Harvard Univ. Press 2003) ("Landes & Posner") (*Brulotte* is "wrong," "dubious," "anomalous," and "one of the all-time economically dumb Supreme Court decisions"); John W. Schlicher, *Patent Law, Legal and Economic Principles* §13:218 (2d ed. 2012) ("Schlicher Patent Treatise") ("[P]ost-expiration royalties should not be a basis for patent misuse," or, at a minimum, "should not be the subject of a *per se* rule."); Ian Ayres & Paul Klemperer, *Limiting Patentees' Market Power without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 Mich. L. Rev. 985, 1027 (1999) ("Our analysis . . suggests that *Brulotte* should be overruled."); Richard Gilbert & Carl Shapiro, *Antitrust*

Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties in *Brookings Papers on Economic Activity: Microeconomics* 283, 322 (1997) ("Gilbert & Shapiro")[7] ("Economic theory reveals that [the *Brulotte*] . . . doctrine is flawed. . . . [Its] [l]egal reasoning . . . , based on the notion that extending the royalties in time is to 'enlarge the monopoly of the patent,' although rhetorically appealing, does not seem to reflect commercial reality or basic economics.").[8]

---

[7] *Available at* faculty.haas.berkeley.edu/shapiro/ninenono.pdf.

[8] *See also* 10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* ¶1782c & 555 (3d ed. 2011 & Supp. 2013) (describing in detail "the error in *Brulotte*"); 1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* §23.2a at 23-5–23-6 & 23-11 (2d ed. 2013) ("Hovenkamp IP & Antitrust Treatise") ("*Brulotte* condemned a post-[expiration] royalty provision under a per se rule that reflected the hostility of that era toward perceived extension of the patent 'monopoly.' . . . [T]hese concerns are misplaced. . . . "); Raymond T. Nimmer & Jeff Dodd, *Modern Licensing Law* §7:10 (2012) ("Nimmer Treatise") ("Per se illegality . . . [pursuant to *Brulotte*] is a bad rule."); See & Caprio, 1990 Utah L. Rev. at 853 ("*Brulotte* . . . is wrongly decided"); Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning* Lear? *Incentives to Innovate After* MedImmune, 24 Berkeley Tech. L.J. 971, 1006 (2009) (*Brulotte* was "misguided when . . . decided and . . . [is] certainly out of step with current economic understanding and business practices."); Thomas F. Cotter, *Four Questionable Rationales for the Patent Misuse Doctrine*, 12 Minn. J. L. Sci. & Tech. 457, 461 n.18 & 480 (2011) ("*Brulotte* has been widely, and justly, criticized as resting on flawed economic reasoning . . . [and] would be hard to

(Continued on following page)

Three recent decisions of the courts of appeals, including the Ninth Circuit's decision in this case, while reluctantly following *Brulotte*, also have called on this Court to reconsider it:

> [*Brulotte*] has . . been severely, and as it seems to us, with all due respect, justly, criticized. However, we have no authority to overrule a Supreme Court decision no matter how dubious its reasoning strikes us, or even how out of touch with the Supreme Court's current thinking the decision seems.

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1017-18 (7th Cir. 2002) (Posner, J.); *accord Kimble v. Marvel Enters., Inc.*, App. 2 & 24-25 & n.7 (noting that although the panel was "bound by Supreme Court authority," the "*Brulotte* rule is counterintuitive and its rationale is arguably unconvincing"); *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1019-20 & n.4 (9th Cir. 2007) ("[We] are bound to apply [*Brulotte*] . . if it applies to the case before us . . . [and must leave to the Supreme] Court the prerogative of overruling its own decisions.") (internal quotation marks omitted); *see also* Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953, 955 n.7 (2005) ("*Brulotte* [is] wrong in principle – but conclusive on the lower federal judiciary until the Justices deliver the R.I.P.").

---

defend."); Server et al., 1 Hastings Sci. & Tech. L.J. at 96-68 (criticizing *Brulotte* as "flawed").

The Justice Department and the Federal Trade Commission similarly have expressed disagreement with *Brulotte*. In a recent joint report, the enforcement agencies noted that "[c]ollecting royalties beyond a patent's statutory term can be efficient," and concluded that, notwithstanding *Brulotte*'s *per se* prohibition, the "Agencies [will] review most agreements that have the potential to extend the market power conferred by a valuable patent beyond that patent's expiration pursuant to the rule of reason." 2007 DOJ/FTC Report at 12 & 122; *see also* Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning* Lear? *Incentives to Innovate After* MedImmune, 24 Berkeley Tech. L.J. 971, 996 (2009) (2007 DOJ/FTC Report suggests that *Brulotte* "ought to be reconsidered"); William C. Holmes, *Intellectual Property and Antitrust Law* §24:3 (2013) ("Holmes Treatise") ("[Post-expiration patent royalties] should not be held *per se* illegal, but should instead be governed by the more flexible . rule of reason – a position that is now taken by both federal antitrust enforcement agencies. ") (citing 2007 DOJ/FTC Report at 122) (internal quotation marks omitted).

B. *Brulotte* Should Be Revisited Because It Incorrectly Conflates Patent Royalties And Patent Rights, Prohibits Procompetitive Licensing Practices, And Relies On Outdated Assumptions.

Why has *Brulotte* met with such pervasive criticism? The lower court decisions, enforcement agency

analysis, and academic and professional literature point to three primary reasons for overturning that decision: *Brulotte* (i) incorrectly assumes that post-expiration patent royalties extend patent rights, (ii) suppresses innovation by proscribing procompetitive licensing practices, and (iii) relies on the outdated irrebuttable presumption that patents confer market power.

1. Post-Expiration Patent Royalties Do Not Temporally Extend Patent Rights.

As an initial matter, the primary premise of *Brulotte* – that post-expiration patent *royalties* somehow extend the patent *right* into the post-expiration period – is fundamentally in error. Once a patent has expired, it can no longer be used to prevent anyone from practicing the invention – a fact of which the contracting parties are well aware in advance. License payment terms, consequently, reflect solely the anticipated value of the authorization to use the patented invention prior to patent expiration. Even if certain patent royalty payments nominally are measured by post-expiration use, they nonetheless represent an amortization of the predicted value of the pre-expiration authorization. For example, the parties may agree to defer the start of the payment period, or to lower the royalty rate, in exchange for an extended payment period. Such a trade-off, however, merely calibrates the value of the pre-expiration authorization to the circumstances – it does not entail an

extension in time of the patent right to exclude. As a leading treatise has explained,

> [w]hen the only payments are for use and such payments are required beyond patent expiration, the patentee may appear to extract an unauthorized fee for post-expiration use. *However, this appearance is an illusion.* The machine is presumably more valuable while the patent prevents copying; hence, the annual fee for using it would be higher during the early years if it were not stretched out over the machine's useful life. . [¶] Competing manufacturers [nevertheless] are free to employ the patented technology the instant the patents have expired.

10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* ¶1782c.3 at 556 (3d ed. 2011 & Supp. 2013) ("Areeda Treatise") (emphasis added).

Judge Posner has made the same point on behalf of the Seventh Circuit:

> 'The *Brulotte* rule incorrectly assumes that a patent license has significance after the patent terminates. When the patent term ends, the exclusive right to make, use or sell the licensed invention also ends. Because the invention is available to the world, the license in fact ceases to have value. Presumably, licensees know this when they enter into a licensing agreement. If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments

> on the licensees' assessment of the value of the license during the patent period. These payments, therefore, do not represent an extension in time of the patent monopoly.'

Scheiber, 293 F.3d at 1017-18, 1020 (quoting Harold See & Frank M. Caprio, *The Trouble with* Brulotte*: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 814 & 851(1990)).

Virtually every treatise and article on the subject agrees with the Seventh Circuit's analysis, as do the Ninth Circuit, the Justice Department, and the FTC. *See Kimble v. Marvel Enters., Inc.*, App. 24-25 (quoting *Scheiber*); 2007 DOJ/FTC Report at 118 n.18 ("Once a patent expires, a licensee can use the patent for no charge. It is therefore unclear how a licensor could persuade a licensee to pay more than the amount the licensee would be willing to pay to use the patent during its term.") (citing *Scheiber*); Easterbrook, 42 Hous. L. Rev. at 955 (A "license [does] not create a monopoly. . *Brulotte* . is problematic because it misses this point. Once the patent expires, the power to exclude is gone and all we have is a problem about optimal contract design. If it is lawful to set royalties as '10% during the patent and nothing thereafter,' why is it forbidden to set them at 5% during and after the patent?"); John W. Schlicher, *Licensing Intellectual Property: Legal, Business and Market Dynamics* 195 (John Wiley & Sons, Inc. 1996) ("Schlicher Licensing Treatise") ("If the patent owner asks that royalties be paid over the twenty-five year period, the royalty rate during the term must be

lower. This is so because the value of the patent to the licensee is limited by the difference between the cost and demand during the term. After the term, all others will be able to use the invention freely in competition with those licensees. Unless that license provides them some additional benefit, the rate must be lowered to induce the licensees to agree to pay over the longer period.").[9]

---

[9] *See also* 1 Hovenkamp IP & Antitrust Treatise §23.2a at 23-10 ("It is not even clear that the *Brulotte* arrangement served to enlarge the gross amount of royalties payable to the patentee by making them payable for a longer time. The patentee could as easily have charged a higher royalty rate but made the royalty requirement expire with the patents. If adjusted to present value, the licensee would be indifferent among the options."); Nimmer Treatise at §7:10 ("*Brulotte* reflects a fundamental misdescription of the royalty decision to cover uses after expiration of the underlying rights. That choice does not extend the underlying property right but merely reflects a decision about how to compute and pay the price charged for a license."); Dratler Treatise at §5.04[6][a][i] ("[The] contractual obligation at issue [in *Brulotte*] hardly extended the term of the patents. Everyone besides the licensee was free to practice the patents after they expired with no payment whatsoever. For example, competing manufacturers could make the same machines freely and even sell them to licensees of the expired patents."); Server et al., 1 Hastings Sci. & Tech. L.J. at 101 n.231 ("[P]ost-expiration royalties are merely a method of financing the value received by the licensee during the patent term, since upon expiration of the patent, the patentee has nothing of value left to offer in exchange. Following the expiration of the patent, no one can be excluded from exploiting the previously patented invention, and licensees presumably know this fact when they negotiate the royalty terms of their license."); Christina Bohannan, *IP Misuse as Foreclosure*, 96 Iowa L. Rev. 475, 516-17 (2011) ("[T]he Court's reasoning [in *Brulotte*]

(Continued on following page)

The Court's assumption that "exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period," App. 78, undergirds the entire opinion in *Brulotte*. The consensus among the lower

---

is faulty. The patent holder can charge as much as it wants for the use of the invention during the patent term, and the entire amount that the licensee is willing to pay can be allocated to use of the patent during the term. The licensee is indifferent as to how the total payment will be allocated and will not pay another monopoly price for use of the patented invention after the patent has expired."); Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marq. Intell. Prop. L. Rev. 1, 41-42 & n.186 (2011) ("Post-term royalties are later payment for value already received (the value of access to the patent during its term). The relevant 'extension of the monopoly' post-term royalty inquiry, therefore, is not when payment occurs, but whether the discounted present value of the aggregate royalty payments exceeds the value of accessing the patent during its (remaining) term. [¶] The market ensures that equivalence will always exist regardless of when actual payment is made."); Rochelle Cooper Dreyfuss, *Dethroning* Lear*: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677, 710 n.120 (1986) ("It is important to note that post-expiration royalty provisions do not entirely circumvent the limited-time provision of the Patent Act or the Constitution. The patent term influences the price that the licensee will pay for the product in two ways. Knowing that the product will eventually be available royalty-free may induce the licensee to pay less for it in the first place. The licensee will also bargain down the royalty rate because it knows that after the patent lapses it will have to compete with rivals who enjoy free use of the invention."); Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1630 (1990) ("A licensee will pay a fixed amount for a license, and the courts should not care whether the licensee pays that amount up front, in ten years, or in a hundred years.").

courts, the enforcement agencies, and commentators of all stripes that this assumption was mistaken powerfully demonstrates the need to revisit that decision.

2. *Brulotte* Suppresses Innovation By Proscribing Procompetitive Licensing Practices.

Brulotte should be reevaluated for yet another reason. As the Justice Department and FTC have stressed, *Brulotte* discourages technological innovation and does significant damage to the American economy by categorically proscribing licensing practices that are usually procompetitive and further the goals of the patent system.

In the closely-related antitrust context, this Court repeatedly has emphasized that resort "to *per se* rules is confined to restraints . . that would always or almost always tend to restrict competition and decrease output," i.e., ones that "have manifestly anticompetitive effects," "lack any redeeming virtue," and "would be invalidated in all or almost all instances under the rule of reason." *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886-87 (2007) (internal quotation marks and ellipses omitted). Yet *Brulotte* did not inquire into the nature or frequency of any anticompetitive effects that might stem from post-expiration patent royalties: it simply assumed the worst. *See* 1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and*

Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law §23.2a. at 23-8 (2d ed. 2013) ("Hovenkamp IP & Antitrust Treatise") (*Brulotte* "created a rule of per se illegality" without requiring "any finding of anticompetitive effects in any market").

As the Justice Department and the FTC have explained, however, *Brulotte*'s unquestioning assumption that post-expiration patent royalties invariably are anticompetitive is erroneous:

> Collecting royalties beyond a patent's statutory term can be efficient. Although [under current law] there are limitations on a patent owner's ability to [do so] . . , [*see Brulotte*], that practice may permit licensees to pay lower royalty rates over a longer period of time, which reduces the deadweight loss associated with a patent monopoly and allows the patent holder to recover the full value of the patent, thereby preserving innovation incentives.

2007 DOJ/FTC Report at 12; *see also id.* at 118 & 122 (same).

The pernicious consequence of *Brulotte*'s *per se* rule, then, is that it *destroys* rather than protects innovation incentives:

> [*Brulotte*'s] prohibition of post-term royalties causes affirmative social harm. By unnecessarily limiting flexibility in private-ordering regarding timing of payments, it . . unduly restricts access and exploitation of the

> patented invention . [and] needlessly (and ironically) interferes with . . . promotion of innovation policy. . .

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marq. Intell. Prop. L. Rev. 1, 42-43 (2011).[10]

---

[10] *See also* Schlicher Licensing Treatise at 196 (post-expiration patent royalties are "[p]rocompetitive" because "extension of the payment period reduces the cost of producing or using the patent or operating under the license, . [which in turn] increases the value of the patent and increases innovation"); See & Caprio, 1990 Utah L. Rev. at 846 & n.228 ("*Brulotte* is simply wrong" because it "invalidate[s] a multitude of economically beneficial licensing agreements, thereby discouraging businesses from entering into efficient business arrangements [and suppressing] incentives to exploit an invention."); ABA Section of Antitrust Law, Intellectual Property Misuse: Licensing and Litigation 137 (2000) (an "effort by the patent holder to extract payment from the licensee after the patent has expired is least harmful to society from an economic perspective" and can be "economically neutral or procompetitive"); Gilbert & Shapiro at 322 ("Permitting royalties to be paid over a longer term can, under reasonable conditions, reduce the deadweight loss from a patent monopoly. Thus, allocative efficiency considerations should permit a licensor and licensee to agree to longer royalty terms. [A]lthough the license agreement may appear to extend the duration of the patent license, its effect is to allow that licensor to recover the same present value royalties, but with a lower social cost."); Ayres & Klemperer, 97 Mich. L. Rev. at 1027 ("Negotiating a lower per-unit royalty in return for a longer royalty time period is likely to reduce the deadweight loss of supra-competitive pricing."); Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 995 ("Spreading out the cost of the license over a longer period of time is . . efficient because it reduces deadweight loss.").

Indeed, there are at least four ways in which post-expiration patent royalty provisions can be procompetitive and reduce the "deadweight" losses identified by the Justice Department and the FTC.

First, post-expiration patent royalty provisions can serve as an efficient means of financing development of nascent technologies when the licensor is able to access capital more cheaply than the licensee:

> [S]preading royalties over a longer period helps the licensee defer costs. It is a device by which the patent owner assists in financing the cost of producing or using the new device. If the patent owner borrows at lower rates than his licensees, he may effectively reduce their borrowing costs by permitting them to spread royalty payment over a longer period. The effect of that capital cost reduction is to permit greater use in the combined pre- and post-[expiration] period and increase the value of the patent to the extent of the cost reduction during the term.

Schlicher Patent Treatise at §11:27.[11]

---

[11] *See also* Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 988 & 995 ("[A post-expiration patent royalty] arrangement is in the nature of a loan. It permits a cash-poor licensee to work the patent at lower cost than if the payout term were limited to the life of the patent. [Such] a lower fee is attractive, especially to thinly capitalized entrepreneurs and to startup companies. ."); Thomas F. Cotter, *Misuse*, 44 Hous. L. Rev. 901, 939 n.169 & 960 (2007) ("*Brulotte* has been widely criticized for invalidating an efficient method for financing the

(Continued on following page)

Second, post-expiration patent royalty provisions can allow parties to balance and allocate the risks of developing and commercializing new technology:

> With many new products and processes, neither the licensor nor the licensee knows how commercially valuable the product (or process) will turn out to be. This is one of the main reasons why many licenses provide for royalties to be paid out over a period of time rather than a single lump-sum payment: if the product turns out to be a success, both parties will share in the proceeds, but if it turns out to be a failure, the licensee's cost is limited. . [¶] Allowing the parties the flexibility to stretch out payments over a longer period simply gives them another option, one that may be economically preferable to both parties. . . [The *Brulotte*] rule, which encourages all payments to be made during the life of the patent, can prevent some of these mutually beneficial deals.

ABA Section of Antitrust Law, Intellectual Property Misuse: Licensing and Litigation 138 (2000).[12]

---

licensing of patents [because,] depending on the cost of credit, licensees may prefer the option of making smaller payments over a longer term."); Chiappetta, 15 Marq. Intell. Prop. L. Rev. at 42-43 (post-expiration patent royalties can serve "as a financing mechanism").

[12] *See also* 3 Milgrim Treatise at §18.05 ("Both licensor and licensee may be better served by an arrangement in which the royalty rate is low but the term of royalty extended. The low royalty rate might help the licensee in the early investment

(Continued on following page)

Third, as the Justice Department and the FTC have pointed out, post-expiration patent royalty provisions can lower prices and raise output during the patent term:

---

phase and thereby encourage it to take the risks to launch new, and thus inherently risk-prone, technology. The extended life [in turn] might give the licensor the expectation of ultimate reward, if the project thus jointly sponsored takes commercial root. In establishing a royalty arrangement of this character, moreover, both parties would recognize that, at the expiration of the statutory exclusivity period conferred by the patent, others will be free to practice the previously patented invention without any power on the part of the licensor or licensee to prevent it. But astute business people are willing to conclude, in the appropriate situation, that securing a marketing foothold and developing on-line know-how makes sense and that the interests of both licensor and licensee are best served by doing so."); Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 983-984 ("Especially in situations where substantial development of the invention is required before it can be marketed, potential licensees may be unwilling to devote their available funds to paying off licensing fees. Licensees who are just starting out may not even have the money to make the payment. Furthermore, at the time of the negotiation, before the risky business of development and commercialization has been completed successfully, the parties may be unable to accurately determine the benefits that will flow from the invention. In contrast, a running royalty provision insures that the licensee will not have to pay if the invention turns out to be worthless. At the same time, it gives the patent holder the assurance of a fair return on a successful invention."); *Scheiber*, 293 F.3d at 1017 ("If royalties are calculated on post-patent term sales, the calculation is simply a risk-shifting credit arrangement between patentee and licensee.") (internal quotation marks omitted); Easterbrook, 42 Hous. L. Rev. at 955 ("Once the patent has expired, there is no market power; and both sides may gain by longer-term royalties that not only share risk but also link payments to an idea's staying power.").

> The countervailing benefit to society from allowing the licensor greater freedom to contract is the reduction in royalty rate, and hence prices, during the patent period that occurs as the licensor adjusts the license to induce a licensee to accept the longer term.

2007 DOJ/FTC Report at 118 n.20 (internal quotation marks omitted); *see also* Rochelle Cooper Dreyfuss, *Dethroning* Lear*: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677, 712 n.124 (1986) ("[S]tretching out the computation period decreases royalties during the patent period and may operate to increase output during that time.").

Finally, post-expiration patent royalty provisions also can lower prices and increase competition *after* the end of the patent term despite the fact that the licensee continues to pay royalties, because others need not:

> [I]n the great majority of cases no rival is foreclosed from the market by post-expiration royalties, since the licensee is not restrained from licensing competing technologies either before or after the patents expire. Indeed, to the extent that the user of the machine must pay royalties on expired patents while new entrants into the machine market do not charge such royalties, the practice encourages rather than discourages new entry. . . . As a result, the post-expiration royalties will make the market more, rather than less, attractive to new entrants.

1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-6; *see also* 10 Areeda Treatise ¶1782c.1. at 552 ("The Supreme Court [in *Brulotte*] failed to see that anti-competitive foreclosure is barely conceivable. . . ."); *cf. Leegin*, 551 U.S. at 906 ("The purpose of antitrust law is the protection of competition, not competitors.") (internal quotation marks and emphasis omitted).[13] These post-expiration market conditions, in turn, will surely have been taken into account by the parties to the license when negotiating the royalty commencement, royalty rate(s), and duration of payment.

In light of the foregoing analyses and criticisms, *Brulotte*'s *per se* prohibition makes little sense: "[t]he

---

[13] *See also* Lemley, 78 Cal. L. Rev. at 1630 ("[A]greements that extend royalty terms simply are not anticompetitive."); Bohannan, 96 Iowa L. Rev. at 517 & n.159 (2011) ("[R]oyalty payments that extend beyond the expiration of a patent do not foreclose access to the public domain any more than do other payments on business debts. . To the contrary, requiring royalties on unpatented technology might actually encourage new entrants who are not bound by the license and will be able to undercut the former patentee's price."); Schlicher Licensing Treatise at 196 ("[A post-expiration] royalty provision is highly unlikely to limit competition [after patent expiration]. The agreement does not prevent unlicensed companies from entering [the market] in the postexpiration period. If such entry occurs, there will be no loss in postexpiration resource allocation. This device does not provide a profitable mechanism to limit competition in the postexpiration period and separately exploit that limitation."); Cotter, 44 Hous. L. Rev. at 949 & n.199 (little "evidence that the challenged provision [in *Brulotte*] was likely to have any significant impact upon competition or innovation.").

small number of cases suggesting anticompetitive possibilities indicates that post-expiration royalty provisions should be treated under a rule of reason, with proof of anticompetitive effects required," as the Justice Department and the FTC have recommended. 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-6; *see also* 2007 DOJ/FTC Report at 122 ("The Agencies [will] review most agreements that have the potential to extend the market power conferred by a valuable patent beyond that patent's expiration pursuant to the rule of reason."); Holmes Treatise at §24:3 ("[Post-expiration patent royalties] should not be held *per se* illegal, but should instead be governed by the more flexible . rule of reason – a position that is now taken by both federal antitrust enforcement agencies. . ."') (internal quotation marks omitted).

3. *Brulotte* Relies On The Outdated Irrebuttable Presumption That Patents Confer Market Power.

Finally, *Brulotte* should be revisited because a key assumption underlying that decision has been undercut both by subsequent Congressional action and a later decision of this Court.

Brulotte – relying on an analogy to tying cases – irrebuttably presumed that merely having a patent conferred market power and inherently allowed the licensor to exercise improper leverage over the licensee. *See id.*, 379 U.S. at 33, App. 78-79; *see also* 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-8

(*Brulotte* "created a rule of per se illegality that required . . . [a] presumption that a patent created market power for the purpose of tying arrangements or patent misuse" while demanding no "proof of coercion"); Thomas F. Cotter, *Misuse,* 44 Hous. L. Rev. 901, 924-25 (2007) ("[In] *Brulotte*, the proposition that the patent conferred monopoly power upon the patent owner appears to have been assumed, rather than proven.").

One unfortunate but predictable consequence of this conclusive presumption was that the *Brulotte* rule became a trap for the unwary and an instrument of injustice when wielded by large, sophisticated licensees to deny small inventors their contractually-guaranteed royalties under circumstances where the licensors had no actual market power, and had applied no coercion. *See, e.g., Scheiber*, 293 F.3d at 1016 (licensee allowed to avoid payment under *Brulotte* even though licensee itself had suggested post-expiration royalties in exchange for lower overall royalty rate); *Indus. Promotion Co. v. Versa Prods., Inc.*, 467 N.W.2d 168, 172, 173-74 & n.4 (Wis. Ct. App. 1991) (same); *Delaney v. Marchon, Inc.*, 627 N.E.2d 244, 246 (Ill. App. Ct. 1993) (licensee sought to avoid payment on ground that "its own form [license agreement] ... was illegal and unenforceable" under *Brulotte*); *see also* Dratler Treatise at §4.04[5][d] ("[*Brulotte*] conjure[s] up patent 'leverage' where none in fact exists.").

Indeed, the case at bar presents a similar scenario. As the Ninth Circuit explained, *Brulotte* compelled

it to attribute improper leverage to Petitioners, absolving Marvel – a wholly-owned subsidiary of the even-larger Walt Disney Company – of its financial obligations, merely because Petitioners possessed a patent, even though that patent already had been held noninfringed by the district court at the time the agreement was negotiated. App. 22-23 & 25.

The force of *Brulotte*'s patent-equals-market-power presumption, however, has been severely undercut by two subsequent events.

First, in 1988, Congress enacted a new statutory provision, 35 U.S.C. §271(d)(5), that states that tying does not constitute patent misuse "unless, in view of the circumstances, the patent owner has market power in the relevant market." This development made "it clear that Congress did not intend the mere existence of a patent [any longer] to constitute the requisite 'market power.'" *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42 (2006).

Second, in 2006, this Court followed suit in *Illinois Tool Works*, and, overruling four of its prior decisions, held that, in the antitrust tying context, "a patent [also] does not necessarily confer market power upon the patentee." *Id.*, 547 U.S. at 45-46.

This change in the law of tying – to which *Brulotte* had analogized post-expiration patent royalties – delivered yet another blow to that opinion's already crumbling doctrinal foundation:

> [In finding *per se* unenforceability] solely from the face of the agreement without inquiry into the actual negotiations of the parties, . [*Brulotte* is now] clearly out of step with modern, more realistic assessments of licensing practices. The better approach would address whether, realistically viewed, any wrongful leveraging actually occurred. . [¶] The fact that payments are to be made . . based on post-expiration uses . . . [does] not reflect patent leverage or coercion in and of [itself]. . . What is at issue is . whether the assessment of value is skewed by the presence of market power, by a set of actions beyond the pale of the rule of reason, or by actual coercion. . . [M]odern antitrust principles and rule of reason analysis . . are much better suited [to addressing this issue] than *per se* . rules that presume . . use of leverage that may not in fact be present.

Raymond T. Nimmer & Jeff Dodd, *Modern Licensing Law* §§9:9 & 13:31 (2012).

The Justice Department and FTC have come to the same conclusion, noting that the "starting point for evaluating practices that extend beyond a patent's expiration [should be] . . analyzing whether the patent in question confers market power," and "collecting royalties beyond the statutory term" should not be condemned if "the patent holder . . [cannot] profitably maintain prices above, or output below, competitive levels for a significant period of time." 2007 DOJ/FTC Report at 12 (internal quotation

marks omitted); *see also id.* at 122 ("The first step in the Agencies' analysis is to assess whether the patent at issue confers market power upon its holder, and if so, whether the patent holder's conduct unreasonably extends that market power beyond the patent's statutory term. In performing that inquiry, the Agencies consider . . . whether a firm is exercising such market power beyond the patent's statutory term so as to prevent expansion by those already in the market, or deter entry of substitute products or processes.").[14]

Consequently, the fall of the patent-equals-market-power presumption in the tying context

---

[14] *See also* Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 987 ("In this new environment, the result in *Brulotte* is highly questionable. Without knowing how much economic power the patent conferred, there is no way to determine whether the contractual promise to continue payments beyond the term of the patent was produced by leverage."); Holmes Treatise at §24:4 ("While patent royalty arrangements are not expressly covered [by §271(d)(5)], they would seem to be subject to the same basic logic. Unless the patentee has market power in the economic sense of an ability to affect market prices or output, the fact that it has selected a particular royalty mechanism seems unlikely to affect, let alone injure, competition within the overall market."); Landes & Posner at 380-81 (enactment of section 271(d)(5) has rendered *Brulotte* rule "particularly anomalous"); A. Douglas Melamed & Ali M. Stoeppelwerth, *The* CSU *Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law*, 10 Geo. Mason L. Rev. 407, 418 n.44 (2002) (*Brulotte* is "wrongly decided from the vantage point of contemporary antitrust analysis because deferring royalty payments probably does not constitute creation of additional market power.").

provides yet another reason for rethinking *Brulotte*'s *per se* rule.

II. This Case Presents A Clean Vehicle For Reconsidering *Brulotte*.

The district court and the court of appeals relied solely on *Brulotte's per se* prohibition to dispose of Petitioners' claim for post-expiration royalties. *See* App. 25-26 ("We are bound to follow *Brulotte* and cannot deny that it applies here."); App. 37 ("[T]he Magistrate Judge correctly applied *Brulotte* in this case to find that the royalty provision is unenforceable after the expiration of the Kimble patent."); App. 60. If *Brulotte*'s *per se* proscription were overturned, the post-expiration royalty payment provision in this case readily would satisfy a more contextualized test, such as the rule of reason, and would thus be enforced, as, *inter alia*, Petitioners obviously never had any market power. This case consequently presents a clean vehicle for this Court to reconsider *Brulotte*'s *per se* rule.

III. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte*.

Finally, the doctrine of *stare decisis* does not counsel against reconsideration of *Brulotte*, for three reasons.

First, *Brulotte* is a judge-made rule, rather than an "interpretation of . the patent statute or any other statute." *Scheiber*, 293 F.3d at 1018. The sole

statutory provision mentioned in *Brulotte,* 35 U.S.C. §154, says nothing about royalties, let alone the propriety of contracts providing for post-expiration patent royalties. *See Brulotte*, 379 U.S. at 30, App. 74-75 (quoting statute). In fact, "the language of the Patent Act nowhere condemns such a contract." 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-11. Rather, as Judge Posner has explained, *Brulotte* is "a free-floating product of a misplaced fear of monopoly." *Scheiber*, 293 F.3d at 1018. This Court has not, in the past, hesitated to overrule decisions espousing judge-made patent doctrines when they had proven to be misguided. *See, e.g., Lear, Inc. v. Adkins,* 395 U.S. 653, 663-71 (1969) (overruling prior decision and rejecting the common-law doctrine of patent licensee estoppel); *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 321 (1971) (overruling prior decision and rejecting the "judge-made doctrine" of mutuality of estoppel in patent litigation). The Court should do so again here.

Second, in the closely-related antitrust context, this Court consistently has emphasized that reconsideration of *per se* prohibitions particularly is warranted when the relevant government agencies and the academic literature, in light of intervening experience and analysis, come to the conclusion that application of a more nuanced approach such as the rule of reason is appropriate:

> *Stare decisis,* we conclude, does not compel our continued adherence to the *per se* rule [at issue]. As discussed earlier, respected

> authorities in the economics literature suggest the *per se* rule is inappropriate, and there is now widespread agreement that [the challenged practices] . . can have procompetitive effects. . . . It is also significant that both the Department of Justice and the Federal Trade Commission – the antitrust enforcement agencies with the ability to assess the long-term impacts of . . [these practices] – have recommended that this Court replace the *per se* rule with the traditional rule of reason.

Leegin, 551 U.S. at 900 & 907 (overruling prior decision to the contrary); *see also Ill. Tool Works*, 547 U.S. at 40 (overruling several prior decisions and rejecting *per se* rule in view of the "extensive scholarly comment and a change in position by the administrative agencies charged with enforcement of the antitrust laws"); *State Oil Co. v. Khan,* 522 U.S. 3, 15, 18, 21 (1997) (overruling prior decision and holding that "there is insufficient economic justification for *per se* [rule at issue]" in light of the "considerable body of scholarship" showing that "the theoretical underpinnings" of that rule have been "called into serious question"). *Brulotte*'s *per se* rule should be reconsidered for the same reason.

Finally, reliance interests do not counsel against reconsideration of *Brulotte*. Overruling *Brulotte* will open the door to desirable, procompetitive licensing practices going forward. At the same time, the only existing agreements likely to be impacted are either those – like the ones at issue in this case – where the

parties agreed to post-expiration royalty payments because they were unaware of *Brulotte*, App. 7 n.3, or those where one of the parties purposely entered into such an agreement in the hope of later avoiding its contractual obligations on the basis of *Brulotte*. In either case, a change in the law that would require parties to live up to their voluntarily-undertaken contractual obligations can hardly be said to upset their reasonable expectations.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

ANTONIO R. DURANDO

*Also Lecturer in Law
USC GOULD SCHOOL OF LAW
699 Exposition Blvd.
Los Angeles, CA 90089

ROMAN MELNIK*
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE†
GOLDBERG, LOWENSTEIN & WEATHERWAX LLP

† Also Corporate IP Attorney
BANDGAP ENGINEERING, INC.
6 Gill St., Unit H
Woburn, MA 01801

Counsel for Petitioners

December 13, 2013

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

STEPHEN KIMBLE; ROBERT MICHAEL GRABB, INDIVIDUALS,

Plaintiffs-Appellants,

v.

MARVEL ENTERPRISES INC.,

Defendant-Appellee.

No. 11-15605.

Argued and Submitted Dec. 5, 2012.
Submission vacated Dec. 14, 2012.
Resubmitted May 29, 2013.
Filed July 16, 2013.

Antonio R. Durando (argued), Tucson, AZ; Stephen Kimble, Tucson, AZ; and Robert Grabb, Tucson, AZ, for Plaintiffs-Appellants.

David Fleischer (argued), Haynes and Boone, LLP, New York, NY; Andrew M. Jacobs, Snell & Wilmer L.L.P., Tucson, AZ; and Jason T. Christiansen, Zuniga Christiansen PLLC, Houston, TX, for Defendant-Appellee.

Appeal from the United States District Court for the District of Arizona, David C. Bury, District Judge, Presiding. D.C. No. 4:08-cv-00372-DCB.

Before DIARMUID F. O'SCANNLAIN, SIDNEY R. THOMAS, and CONSUELO M. CALLAHAN, Circuit Judges.

OPINION

CALLAHAN, Circuit Judge:

This appeal calls on us to again construe the Supreme Court's frequently-criticized decision in *Brulotte v. Thys Co.,* 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964). In *Brulotte,* the Court held that a patent licensing agreement requiring a licensee to make royalty payments beyond the expiration date of the underlying patent was unenforceable because it represented an improper attempt to extend the patent monopoly. *Id.* at 30-33, 85 S.Ct. 176. We have previously noted that *Brulotte* has been read to require that any contract requiring royalty payments for an invention either after a patent expires or when it fails to issue cannot be upheld unless the contract provides a discount from the alternative, patent-protected rate. *Zila, Inc. v. Tinnell,* 502 F.3d 1014, 1021 (9th Cir.2007). We acknowledged that the *Brulotte* rule is counterintuitive and its rationale is arguably unconvincing. *Id.* at 1019-20 & n. 4. Nonetheless, recognizing that we are bound by Supreme Court authority and the strong interest in maintaining national uniformity on patent law issues, we have

reluctantly applied the rule. *Id.* at 1020, 1022. We are compelled to do so again. Accordingly, we join our sister circuits in holding that a so-called "hybrid" licensing agreement encompassing inseparable patent and non-patent rights is unenforceable beyond the expiration date of the underlying patent, unless the agreement provides a discounted rate for the non-patent rights or some other clear indication that the royalty at issue was in no way subject to patent leverage. *See Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 884-86 (7th Cir.1986); *Boggild v. Kenner Prods.*, 776 F.2d 1315, 1319-20 & n. 5 (6th Cir.1985); *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1371-72 (11th Cir.1983).

I

A

Around 1990, Appellant Stephen Kimble[1] invented a Spider-Man toy that allowed a child or other user to "role play" as Spider-Man by mimicking Spider-Man's web-shooting abilities with foam string. A user would operate the toy by activating a trigger attached to a valve in the palm of a glove. The valve was attached to a flexible line leading to a can of foam strapped to the user's wrist or waist. Kimble

---

[1] Kimble is the inventor of the intellectual property at issue, while Appellant Robert Grabb represented Kimble in a prior litigation with Marvel and, at some point, acquired an interest in the property. Accordingly, as most of the references concern Kimble alone, we use "Kimble" in the singular to refer to both Appellants for ease of reference.

patented the idea under U.S. Patent No. 5,072,856 (the "'856 Patent"). The '856 Patent expired on or about May 25, 2010.

In December 1990, Kimble met with Lou Schwartz (the President of Appellee Marvel's predecessor[2]) to discuss the idea covered by then-pending application for the '856 Patent and other "ideas and know-how." Kimble contends that at the meeting, Schwartz verbally agreed that Marvel would compensate him if it used any of his ideas. Marvel subsequently told Kimble that it was not interested in his ideas. Despite its supposed lack of interest, Marvel thereafter began manufacturing a similar Spider-Man role-playing toy called the "Web Blaster." The Web Blaster allowed that toy's user to shoot foam string from a can mounted on the user's wrist by activating a trigger in the user's hand. Like Kimble's toy, the Web Blaster was packaged with a glove, but unlike Kimble's toy, the Web Blaster glove was purely cosmetic—a Web Blaster user did not need the glove in order to shoot foam string.

---

[2] Marvel Entertainment, LLC is the entity actively litigating the action, and is the successor to Marvel Enterprises, Inc. (the named party), and Toy Biz, Inc. (the entity that Kimble allegedly shared his ideas with and defendant in the 1997 action). We refer to all of these entities as "Marvel."

B

In 1997, Kimble sued Marvel for patent infringement and breach of contract, claiming that it had used his ideas in developing the Web Blaster without compensating him. Kimble alleged that Marvel had breached the verbal agreement because the Web Blaster incorporated "many of the ideas" he disclosed at the meeting and Marvel had not compensated him for its use of those ideas.

The district court granted Marvel's motion for summary judgment on the patent infringement claim, but found that there were genuine issues of material fact precluding summary judgment on the contract claim. A jury later found for Kimble on the contract claim, and the court entered a judgment awarding him 3.5% of past, present, and future Web Blaster "net product sales" (excluding sales of foam string refills). Kimble appealed the court's decision on the patent infringement claim, and Marvel appealed the verdict on the contract claim. Throughout all stages of the case, Kimble maintained that the Web Blaster infringed the '856 Patent while Marvel contended that it did not.

C

In 2001, the parties agreed to settle the case while the appeals were still pending. They accordingly executed a written agreement (the "Settlement Agreement") memorializing their agreement to: (a) withdraw their appeals; (b) stipulate to vacating the

district court judgment; and (c) stipulate to dismissing the case with prejudice. Marvel also agreed to purchase the '856 Patent. The relevant section provided that:

> The purchase price for the Patent shall be payable to the Patent Holders as follows:
>
> a. $516,214.62 upon execution and delivery of this Agreement; and
>
> b. 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

The parties also agreed to a release, under which Kimble released Marvel except for Marvel's obligations under the Settlement Agreement itself, "and except for those obligations under the alleged verbal agreement that was the subject of the Action." The agreement has no expiration date and does not include any specific time limit on Marvel's obligation to pay "3% of 'net product sales.'" At the parties' request, the district court entered an order vacating the judgment and dismissing the action with prejudice.

D

Thereafter, the parties coexisted for several years without any significant disagreements. Web Blaster sales—and as a consequence, royalty payments over the life of the Settlement Agreement—were substantial. All together, Marvel paid Kimble more than $6 million in royalties.

But the peace did not last. In 2006, Marvel entered into a licensing agreement with Hasbro giving it the right to produce certain toys related to Marvel characters, including the Web Blaster. A number of disagreements subsequently arose between Marvel and Kimble concerning the royalty payments.[3] These disputes revolved around the calculation of royalties for subsequent iterations of the Web Blaster that included additional functions (in addition to shooting foam string) or Web Blasters that were packaged with other role play items (such as Spider-Man masks). In their discussions, Kimble initially

---

[3] Marvel intended to have Hasbro assume its responsibilities under the Settlement Agreement by requiring it to execute a sublicense agreement. Hasbro, however, did not execute the sublicense agreement at the same time that it executed the licensing agreement. Marvel, apparently, overlooked this. It later asked Hasbro to execute the agreement, but Hasbro refused. At oral argument, Marvel's counsel acknowledged that when the parties negotiated the Settlement Agreement, they were not aware of *Brulotte*. Consequently, had the Hasbro deal not occurred, it is quite possible that Marvel would have continued to pay Kimble under the Settlement Agreement beyond the expiration date of the patent without dispute.

took the position that royalties were due for these products under the Settlement Agreement because they "would infringe the Patent."

Kimble filed suit in Arizona state court for breach of contract and related claims. Marvel removed based on diversity of citizenship. Marvel then counterclaimed seeking, among other things, a declaration that it was no longer obligated to pay Kimble under the Settlement Agreement "based on the sales of products after the expiration of the '856 patent." In discovery, Marvel reaffirmed its view that the Web Blaster never infringed the '856 Patent.

The parties filed summary judgment motions, which the district court referred to the magistrate judge for a report and recommendation. *Kimble v. Marvel Enters., Inc.*, 692 F.Supp.2d 1156, 1164 (D.Ariz.2010). The magistrate judge found that under *Brulotte*, Kimble could not recover royalties under the Settlement Agreement beyond the expiration date of the '856 Patent. *Id.* at 1167-69 (discussing *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964)). He reasoned that the Settlement Agreement transferred patent rights, and that it was less clear that it transferred any non-patent rights. *Id.* at 1167-68. He observed that the release clause "more reasonably suggests that Plaintiffs reserved the non-patent rights from the verbal agreement and did not transfer them to Marvel." *Id.* at 1168. Alternatively, he found that *Brulotte* applied because the Settlement Agreement was a "hybrid" agreement transferring inseparable patent and non-patent rights, and because the

patent rights were used as leverage to negotiate the agreement. *Id.* at 1168-69.

Kimble objected, arguing "that the Agreement transferred both patented and non-patented rights and while the royalties for the patent rights end with the patent, they do not end for the non-patented rights which cover the Web Blaster." *Id.* at 1159. The district court nonetheless adopted the recommendation over Kimble's objection. *Id.* at 1159-63. It noted that the Settlement Agreement could be read as transferring both patent rights and "the rights to the toy idea(s) verbally exchanged" between the parties in 1990, but rejected Kimble's argument that it created "separable" patent and non-patent rights because it made "no distinction between the royalties for these two" categories. *Id.* at 1160. Accordingly, the district court agreed that the Settlement Agreement was a "hybrid" and that the royalties had to end when the patent expired. *Id.* at 1159-61. Kimble now appeals, and we have jurisdiction pursuant to 28 U.S.C. § 1291.

II

We review the district court's decision to grant summary judgment de novo. *Michelman v. Lincoln Nat'l Life Ins. Co.*, 685 F.3d 887, 892 (9th Cir.2012). We "must determine, viewing the evidence in the light most favorable to the non-moving party, whether there are any genuine issues of material fact and whether the district court correctly applied the

substantive law." *Id.* (quoting *Cruz v. Int'l Collection Corp.*, 673 F.3d 991, 996 (9th Cir.2012) (internal quotation marks omitted)).

III

A

Before analyzing the parties' arguments, we review *Brulotte* and its progeny. In *Brulotte v. Thys Co.*, 379 U.S. 29, 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964), the owner of patents for a hop-picking machine sold machines to two purchasers along with licenses for their use. The purchasers paid a flat sum for the machines, but also had to make seasonal royalty payments. *Id.* The licenses also precluded the purchasers from assigning the licenses or moving the machines outside of the county. *Id.* The purchasers eventually stopped making royalty payments, arguing that the owner had misused the patents by extending the license agreements beyond the expiration dates of the patents. *Id.* at 30. The Supreme Court agreed, concluding "that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se." *Id.* at 32, 85 S.Ct. 176.

The Court explained that Congress had granted inventors "the exclusive right" to make, use, or sell their discoveries "for limited times." *Id.* at 30, 85 S.Ct. 176 (quoting U.S. Const. art. 1, § 8) (internal quotation marks omitted). After the relevant period

expires,[4] however, "these rights become public property." *Id* at 31, 85 S.Ct. 176. Any attempt to reserve or continue the patent monopoly after expiration "runs counter to the policy and purpose of the patent laws" regardless of what "legal device" is employed. *Id.* (quoting *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256, 66 S.Ct. 101, 90 L.Ed. 47 (1945)).

The Court found that the annual payments were not designed merely to compensate the owner for the use during the patent term because the parties had agreed on a flat sum as the purchase price for the machine and the royalty payments covered the use of the machine for each year. *Id.* Thus, the payments due in "the post-expiration period [we]re by their terms for use during that period, and [we]re not deferred payments for use during the pre-expiration period." *Id.* Similarly, the Court rejected the argument that the license was merely an arrangement for payment based on the amount of use. *Id.* at 31-32, 85 S.Ct. 176. Thus, "[t]he sale or lease of unpatented machines on long-term payments based on a deferred purchase price or on use would present wholly different

---

[4] When *Brulotte* was decided, the statute provided a seventeen-year period of exclusivity. *Id.* at 30-31, 85 S.Ct. 176 (citing, inter alia, 35 U.S.C. § 154). Congress subsequently revised the statute to provide a term beginning on the date of issuance and ending twenty years from the date of the application, in most cases. 35 U.S.C. § 154(a)(2). The term may be extended where the U.S. Patent and Trademark Office fails to issue the patent within three years of the application's filing date. *Id.* § 154(b)(1)(B).

considerations." *Id.* at 32, 85 S.Ct. 176. The Court also noted that the license agreement precluded assignment or removal of the machines from the county both before and after expiration of the patents. *Id.* at 31-32.

Because the licenses made no distinction "between the term of the patent and the post-expiration period," they were "on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they d[id] for the monopoly period." *Id.* at 32, 85 S.Ct. 176. The Court was consequently "unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage." *Id.* Thus, the patent owner could not use that leverage to project the patent monopoly beyond the expiration of the patent because, if it was permissible to do so, "the free market visualized for the post-expiration period would be subject to monopoly influences that have no proper place there." *Id.* at 32-33, 85 S.Ct. 176.

In contrast, in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262-66, 99 S.Ct. 1096, 59 L.Ed.2d 296 (1979), the Supreme Court found that patent law did not preclude the enforcement of an agreement to provide royalty payments indefinitely where no patent had issued. In that case, the petitioner had invented a keyholder and filed a patent application. *Id.* at 259. The design was "ingenious" but also "so

simple that it readily could be copied unless it was protected by patent." *Id.* The respondent had agreed that it would pay the petitioner a five percent royalty for the exclusive right to manufacture and sell the keyholder. *Id.* The parties had also agreed, however, that if the patent application was "not allowed within five (5) years" the respondent "would pay two and one half percent (2½%) of sales so long as [it] continue[d] to sell" the keyholder. *Id.* (original alteration marks omitted). The petitioner did not obtain the patent within five years, and the Board of Patent Appeals subsequently issued a final rejection of her application. *Id.* at 260, 99 S.Ct. 1096. After the keyholder proved successful, but also subject to widespread copying by competitors, the respondent sued, seeking a declaration that the contract was preempted by patent law. *Id.*

The Court found that the agreement was "not inconsistent" with patent law principles, as it did "not withdraw any idea from the public domain." *Id.* at 262-63, 99 S.Ct. 1096. It noted that the petitioner had disclosed the design to the respondent in confidence, and had the respondent "tried to exploit the design in breach of that confidence, it would have risked legal liability." *Id.* at 263, 99 S.Ct. 1096. The agreement would "merely require[the respondent] to pay the consideration which it promised in return for the use of a novel device which enabled it to pre-empt the market." *Id.* at 264, 99 S.Ct. 1096. Nonetheless, it accepted that had the petitioner obtained the patent, "she would have received a 5% royalty only on

keyholders sold during the 17-year life of the patent." *Id.* at 263-64, 99 S.Ct. 1096.

The Court distinguished *Brulotte,* indicating that "the reduced royalty which is challenged, far from being negotiated 'with the leverage' of a patent, rested on the contingency that no patent would issue within five years." *Id.* at 264-65, 99 S.Ct. 1096 (discussing 379 U.S. at 33, 85 S.Ct. 176). The Court further explained:

> No doubt a pending patent application gives the applicant some additional bargaining power for purposes of negotiating a royalty agreement. The pending application allows the inventor to hold out the hope of an exclusive right to exploit the idea, as well as the threat that the other party will be prevented from using the idea for 17 years. However, the amount of leverage arising from a patent application depends on how likely the parties consider it to be that a valid patent will issue. Here, where no patent ever issued, the record is entirely clear that the parties assigned a substantial likelihood to that contingency, since they specifically provided for a reduced royalty in the event no patent issued within five years.
>
> This case does not require us to draw the line between what constitutes abuse of a pending application and what does not. It is clear that whatever role the pending application played in the negotiation of the 5% royalty,

> it played no part in the contract to pay the 2½% royalty indefinitely.

Id. at 265, 99 S.Ct. 1096. Accordingly, patent law was not a "barrier" to the contract. *Id.* at 266, 99 S.Ct. 1096.

In light of these decisions, several of our sister circuits have applied the *Brulotte* rule to preclude the payment of royalties beyond the expiration date of patents under so-called "hybrid" agreements encompassing inseparable patent and non-patent rights. *Meehan v. PPG Indus., Inc.,* 802 F.2d 881, 884-86 (7th Cir.1986) (discussing *Pitney Bowes* and *Boggild* with approval and applying *Brulotte* where agreement conveyed patent rights in addition to trade secrets); *Boggild v. Kenner Prods.,* 776 F.2d 1315, 1319-20 & n. 5 (6th Cir.1985) (discussing *Pitney Bowes* and *Aronson,* 440 U.S. at 263-64); *Pitney Bowes, Inc. v. Mestre,* 701 F.2d 1365, 1371-72 (11th Cir.1983) (discussing *Brulotte,* 379 U.S. at 32, 85 S.Ct. 176, and *Aronson,* 440 U.S. at 261, 99 S.Ct. 1096).

In *Zila, Inc. v. Tinnell,* 502 F.3d 1014, 1016, 1019-22 (9th Cir.2007), we applied *Brulotte* in a case where the patent owner had relinquished all patent and other rights in a product in exchange for a royalty in perpetuity. In that case, the inventor's patent application was pending when the parties entered into the royalty agreement. *Id.* at 1017. The patent later issued, but the royalty rate was not contingent on issuance, nor was there any discount for the post-expiration period. *See id.*

We initially observed that *Brulotte* "runs counter to the usual task in a contract case—to interpret the terms agreed to by the parties." *Id.* at 1019. Moreover, we acknowledged that *Brulotte* renders some aspects of otherwise valid contracts unenforceable "for a reason that many courts and commentators have found economically unconvincing, namely, that 'the free market visualized for the post-expiration period would be subject to monopoly influences' if 'a royalty agreement was allowed to project beyond the expiration date of the patent.'" *Id.* at 1019-20 (quoting *Brulotte,* 379 U.S. at 32-33, 85 S.Ct. 176) (alteration marks and footnote omitted). Thus, we acknowledged that we were bound to apply *Brulotte*'s holding, but that we need not and should not "expand *Brulotte*'s holding beyond its terms." *Id.* at 1020.

We then went on to discuss the state of the law after the *Aronson* decision. We explained that "[t]he distinction between the contract in *Brulotte* and the one in *Aronson* rested, according to the Court, on the fact that the extended royalty term in *Aronson* was not 'negotiated with the leverage of a patent but rested on the contingency that no patent would issue within five years.'" *Id.* at 1020 (quoting *Aronson,* 440 U.S. at 265, 99 S.Ct. 1096) (alteration marks and internal quotation marks omitted). We noted that other circuits had read *Brulotte* and *Aronson* "to create two bright-line rules: (1) If a patent ever issues on an invention, *Brulotte* applies, and no contract can properly demand royalty payments after the patent expires; and (2) a contract that provides for royalties

either when a patent expires or when it fails to issue cannot be upheld unless it provides a discount from the alternative, patent-protected rate." *Id.* at 1021 (citing *Meehan,* 802 F.2d at 884-85; *Boggild,* 776 F.2d at 1319-20; *Pitney Bowes,* 701 F.2d at 1372-74).

We observed that *Brulotte* and *Aronson* did not necessarily compel these rules. We suggested that *Brulotte* turned on the existence of the onerous use restrictions unrelated to the royalty. *Id.* at 1021 (citing *Brulotte,* 379 U.S. at 29, 31-32, 85 S.Ct. 176). It was those restrictions that showed that the unchanging royalty rate was significant and that the patent owner "was acting *in all respects* as if the patent remained in place." *Id.* (citing *Brulotte,* 379 U.S. at 32, 85 S.Ct. 176). *Aronson,* in contrast, involved a sale of pure intellectual property that had value apart from the patent. *Id.* at 1022 (citing *Aronson,* 440 U.S. at 261-63, 265, 99 S.Ct. 1096). The language in *Aronson* suggesting that the patent owner in that case could not have received the full patent royalty beyond the patent term "was counterfactual dicta, neither supported by any analysis nor necessary for the decision." *Id.* at 1022. Nonetheless, we reluctantly followed the other circuits' "consensus" in light of the "particularly strong national uniformity concerns" present in patent cases. *Id.* Accordingly, we found that *Brulotte* rendered the agreement unenforceable to the extent it required royalty payments beyond the expiration date of the patent, but rejected several other arguments to extend the rule.

Id. at 1022-26 (holding, inter alia, that *Brulotte* did not apply to a foreign patent).

The rule that follows, in relevant part, is that a license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate. This is because—in the absence of a discount or other clear indication that the license was in no way subject to patent leverage—we presume that the post-expiration royalty payments are for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*.

B

Kimble argues that the Settlement Agreement distinguishes between patent and non-patent rights, that both parties now agree that the Web Blaster did not infringe the '856 Patent, and therefore, that *Brulotte* does not apply to the Web Blaster royalty payments. We cannot agree because the agreement plainly involved one royalty rate for both patent and Web Blaster rights, with no discount or other clear indication that the Web Blaster royalties were not subject to patent leverage.

Kimble's primary contention is that the Settlement Agreement provided two separate royalty rates (which were both 3%) for the patented rights and the non-patented Web Blaster rights. Putting aside for

the moment the fact that there is admittedly no discounted rate for non-patent rights, Kimble's argument is not supported by the language of the Settlement Agreement. *Cf. Meehan,* 802 F.2d at 885-86 (rejecting a similar argument that a royalty merely related to trade secrets based on the terms of the agreement). The Settlement Agreement provided that Marvel would purchase the '856 Patent for a lump sum plus a continuing royalty of "3% of 'net product sales.'" The agreement then defined "net product sales" as including "product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product."

Thus, the Settlement Agreement contemplated one royalty for patent rights and Web Blaster rights. At the time the parties negotiated the agreement, the patent infringement claim was not definitively resolved. The district court had found that the Web Blaster did not infringe the patent, but Kimble was appealing that decision. Because the infringement claim remained disputed, it was necessary for the parties to specifically include "Web Blaster" sales in addition to sales of products that allegedly infringed the patent to resolve their dispute. This, however, did not create a distinct royalty for non-patent rights. To the contrary, the structure of the agreement demonstrates that the rights were intertwined and cannot be separated in any principled manner. Tellingly: (a) the purpose of the entire provision was to set the sale price for *the patent;* (b) *all* rights were encompassed

within the definition of "net product sales" used to calculate a single royalty; and (c) the agreement specifically referred to "Web Blaster" sales, as opposed to sales of products utilizing ideas and know-how covered by the verbal agreement. The agreement was structured this way because, at that time, it was unclear whether Web Blaster sales infringed the patent, violated the verbal agreement, or both. If there were two distinct royalties at issue, the parties could have easily specified as much. Their failure to do so is dispositive.

The Settlement Agreement also did not include a discounted rate for the alleged non-patent rights. Some language in prior opinions suggests that the failure to include a discounted rate is a per se violation of *Brulotte*. *See Zila,* 502 F.3d at 1021 (discussing cases). Of course, the point of requiring a discount from the patent-protected rate is that it shows that the royalty at issue was not subject to patent leverage. *See Brulotte,* 379 U.S. at 32, 85 S.Ct. 176; *see also Aronson,* 440 U.S. at 265, 99 S.Ct. 1096 (finding that the discounted rate demonstrated that the patent "played no part" in the agreement to pay the lower royalty indefinitely); *Pitney Bowes,* 701 F.2d at 1372 n. 12 ("The implication of this language [in *Brulotte*] is that, if a patent owner can prove that he did not use his patent monopoly leverage to exact reduced post-expiration trade secret payments, then there would be no direct conflict with federal law and the agreement would be enforced."). We do not think that the "discount" requirement should be applied

inflexibly without reference to its purpose. Consequently, even though a discounted rate may not be necessary to avoid *Brulotte* in every case, in the absence of a discounted rate, there must be some other clear indication that the royalty was in no way subject to patent leverage. *See Meehan*, 802 F.2d at 886 ("Although it is true that parties can contract for trade secret payments to extend beyond the life of a patent, there must be some provision that distinguishes between patent royalties and trade secret royalties."). Here, there is no such indications.[5] *See id.*

Kimble also argues that the Settlement Agreement's 3% rate represents a "discount" from the district court judgment's 3 1/2% rate. Kimble is essentially arguing that because the rate in the judgment was higher, there was a "discount" in the final agreement. Kimble's argument misconstrues the significance of a discounted rate in the *Brulotte* analysis. The rates in the agreement at issue are what matters, not the rates in the long-since vacated judgment. In the Settlement Agreement, there was only one rate for all rights, and it was the same for both patent and Web Blaster rights. Moreover, where

---

[5] We note, for example, that had the parties explicitly indicated, in a separate section of the agreement, that royalty payments for sales of non-patented products, including the Web Blaster, were to be paid in settlement of Kimble's claims that Marvel used the ideas and know-how he verbally disclosed at the 1990 meeting without compensation, it would arguably be immaterial if the rate were the same as the rate for sales of allegedly patent-infringing products.

a first rate is higher and is not subject to patent leverage, that does not show that a second, lower rate encompassing both patent-protected and non-patent protected rights was not subject to patent leverage. The "discount" from the rate in the judgment to the Settlement Agreement reflected the fact that Kimble might not prevail on appeal, not that the rights at issue were not subject to patent leverage.

Kimble further contends that this case is distinguishable because it involved a "hybrid" *agreement,* that coincidentally included both patent and non-patent rights, as opposed to a "hybrid" *product,* consisting of both patented and non-patented ideas. *Cf. Boggild,* 776 F.2d at 1319 (applying *Brulotte* to a "patented item"). The flaw with Kimble's argument is that at the time of the Settlement Agreement, it was uncertain whether the Web Blaster sales infringed the '856 Patent and the Settlement Agreement does not contain any clear indication that the Web Blaster royalties were not subject to patent leverage.

Kimble's primary leverage in negotiating the settlement was undoubtedly the jury verdict on the contract claim. Generally speaking, a party who prevailed before the district court has the better chance of prevailing on appeal. *See, e.g., U.S. Bancorp Mortg. Co. v. Bonner Mall P'ship,* 513 U.S. 18, 26, 115 S.Ct. 386, 130 L.Ed.2d 233 (1994) ("Judicial precedents are presumptively correct. . . ." (internal quotation

marks omitted)).[6] However, contrary to Kimble's recent suggestion that he agrees that the Web Blaster never infringed the '856 Patent, at the time of the negotiations, he was challenging the district court's decision and likely derived some amount of leverage from his patent infringement appeal. Even if this patent leverage was significantly less than the leverage that Kimble derived from the jury verdict on his contract claim, *Brulotte* applies because it is impossible to tell "what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage." *Brulotte,* 379 U.S. at 32, 85 S.Ct. 176. Thus, the patent rights and any non-patent rights were intertwined and *Brulotte*'s presumption must apply.

IV

We acknowledge our application of the *Brulotte* rule in this case arguably deprives Kimble of part of

---

[6] The Settlement Agreement was dated September 21, 2001. For the twelve-month period ending September 30, 2002, we affirmed on the merits 968 of 1,244, or 77.8%, of "other private civil" appeals (i .e., civil appeals excluding prisoner petitions, administrative appeals, bankruptcy cases, and cases involving the federal government). Administrative Office of the United States Courts, *2002 Annual Report of the Director: Judicial Business of the United States Courts* 99 (2003), *available at* http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2002/appendices/b05sep02.pdf (last visited July 3, 2013).

the benefit of his bargain based upon a technical detail that both parties regarded as insignificant at the time of the agreement. Indeed, as the Seventh Circuit has explained, *Brulotte* has been criticized for exactly that reason:

> The Supreme Court's majority opinion reasoned that by extracting a promise to continue paying royalties after expiration of the patent, the patentee extends the patent beyond the term fixed in the patent statute and therefore in violation of the law. That is not true. After the patent expires, anyone can make the patented process or product without being guilty of patent infringement. The patent can no longer be used to exclude anybody from such production. Expiration thus accomplishes what it is supposed to accomplish. For a licensee in accordance with a provision in the license agreement to go on paying royalties after the patent expires does not extend the duration of the patent either technically or practically, because . if the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower. The duration of the patent fixes the limit of the patentee's power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1017 (7th Cir.2002).[7]

The Seventh Circuit's criticism is particularly apt in this case. The patent leverage in this case was vastly overshadowed by what were likely non-patent rights, and Kimble may have been able to obtain a higher royalty rate had the parties understood that the royalty payments would stop when the patent expired. Nonetheless, *Brulotte* and its progeny are controlling. We are bound to follow *Brulotte* and

---

[7] We previously acknowledged these criticisms in *Zila*, 502 F.3d at 1019 n. 4 (collecting authorities). *Accord Brulotte*, 379 U.S. at 34-39, 85 S.Ct. 176 (Harlan, J., dissenting); U.S. Dep't of Justice & FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 12, 116-19, 122-23 (2007) (discussing criticisms of *Brulotte* and concluding that permitting patent holders to enter agreements requiring royalty payments beyond the expiration of the patent "can be efficient" in that it will "reduce[ ] deadweight loss associated with a patent monopoly and allow[ ] the patent holder to recover the full value of the patent, thereby preserving innovation incentives"), *available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetition (last visited July 3, 2013); Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, in *Brookings Papers on Economic Activity: Microeconomics* 233, 322 (1997) (concluding that the "[l]egal reasoning here, based on the notion that extending the royalties in time is to 'enlarge the monopoly of the patent,' although rhetorically appealing, does not seem to reflect commercial reality or basic economics"), *available at* http://www.brookings.edu/~/media/Projects/BPEA/1997%20micro/1997_bpeamicro_gilbert.PDF (last visited July 3, 2013).

cannot deny that it applies here. Accordingly, the district court's judgment is **AFFIRMED.**[8]

---

[8] In a related case, Kimble contends that Marvel breached the verbal agreement by failing to compensate him after the expiration of the patent for its use of his ideas. The district court granted summary judgment for Marvel, finding that the Settlement Agreement unambiguously barred the claim. In an unpublished decision, we reversed, finding the agreement ambiguous under New York law. *Marvel Entmt., LLC v. Kimble*, ___ Fed. App'x ___, No. 12-15315, 2013 WL 3648860 (9th Cir. July 16, 2013). Indeed, Kimble's claim under the verbal agreement may be consistent with the Seventh Circuit's suggestion that a patent holder might be able to recover under a quantum meruit theory if the amount of royalties paid was lower than the fair market value of the defendant's use of the license given that illegal contracts are treated as rescinded, placing the parties back in the positions they would have occupied had the contract never been made in the first place. *See Scheiber*, 293 F.3d at 1022-23; *see also Zila*, 502 F.3d at 1023 (indicating that under *Scheiber*, the portion of the licensing agreement that seeks to extend the patent term is void). In that case, much like a quantum meruit plaintiff, Kimble is essentially asking to be placed in the position that he would have occupied had the Settlement Agreement never been made. Like the Seventh Circuit, we do not read *Brulotte* to preclude such a claim.

UNITED STATES DISTRICT COURT
DISTRICT OF ARIZONA

Stephen Kimble, an individual, and Robert Grabb, an individual, Plaintiffs, v. Marvel Enterprises, Inc., Defendant.	CV 08-372-TUC-DCB **ORDER** (Filed Mar. 2, 2010)

On December 2, 2009, Magistrate Judge Ferraro issued a Report and Recommendation (R&R). (Doc. 77.) He recommends granting Defendant's motion on termination of royalties when the patent expires and Plaintiffs' motion on the definition of "net product sales." He recommends denying Plaintiffs' four other motions. After an independent review of the record, the Court adopts the R&R as the opinion of the Court and grants and denies the motions for summary judgment accordingly.

STANDARD OF REVIEW

The duties of the district court in connection with a R&R by a Magistrate Judge are set forth in Rule 72(b) of the Federal Rules of Civil Procedure and 28 U.S.C. § 636(b)(1). The district court may "accept, reject, or modify, in whole or in part, the findings or recommendations made by the magistrate judge."

Fed. R. Civ. P. 72(b), 28 U.S.C. § 636(b)(1). Where the parties object to a R&R, "[a] judge of the [district] court shall make a *de novo* determination of those portions of the [R&R] to which objection is made." 28 U.S.C. § 636(b)(1); *see Thomas v. Arn,* 474 U.S. 140, 149-50 (1985). When no objection is filed, the district court need not review the R&R *de novo.*

This Court's ruling is a *de novo* determination as to those portions of the R&R to which there are objections. 28 U.S.C. § 636(b)(1)(C); *Wang v. Masaitis,* 416 F.3d 992, 1000 n. 13 (9th Cir. 2005); *United States v. Reyna-Tapia,* 328 F.3d 1114, 1121-22 (9th Cir. 2003) (*en banc*). To the extent that no objection has been made, arguments to the contrary have been waived. *See* 28 U.S.C. § 636(b)(1)(A) (objections are waived if they are not filed within ten days of service of the R&R), *McCall v. Andrus,* 628 F.2d 1185, 1187 (9th Cir. 1980) (failure to object to Magistrate's report waives right to do so on appeal); Advisory Committee Notes to Fed. R. Civ. P. 72 (citing *Campbell v. United States Dist. Court for N.D. Calif.,* 501 F.2d 196, 206 (9th Cir. 1974) (when no timely objection is filed, the court need only satisfy itself that there is no clear error on the face of the record in order to accept the recommendation)). Accordingly, the Court reviews only the objections raised in the briefs filed in objection to the R&R and reviews *de novo* the arguments urged before the Magistrate Judge that pertain to such objections. All other objections are waived.

STATEMENT OF THE CASE

In 1997, Plaintiff Kimble[1] sued Toy Biz (now known as Marvel) for patent infringement and breach of contract based on an oral agreement in CV 97-557 TUC RCC. Kimble invented a web shooting toy, patent no. 5,072,856, which expires no later than May 25, 2010. In 1990, he met with Toy Biz to discuss his patent application and related ideas. Toy Biz agreed it would not use the ideas disclosed by Kimble without first negotiating a reasonable royalty payment for their use. Toy Biz subsequently made and sold a toy, "Web Blaster" and refused to pay Kimble any royalty. Kimble sued Toy Biz. The District Court ruled as a matter of law that the Web Blaster did not infringe the Kimble patent, but there were disputed questions of fact as to the verbal agreement between the parties. After a jury trial, the court entered judgment for Kimble finding the Web Blaster was covered by the verbal agreement and awarded damages "to be 3.5% of net product sales, past, present and future excluding refill royalties." Both parties appealed. (R&R at 3.)

While the appeal was pending, the parties entered into a settlement agreement (the Agreement). They withdrew their appeals and agreed to vacate the

---

[1] Plaintiff Grabb was not a party to the 1997 action. He acted as Kimble's attorney during that proceeding and is a signatory on the Agreement and a Plaintiff in this action.

Judgment. The "key provision" of the Agreement, is as follows:

> 3. Marvel agrees to purchase from the Patent Holders and the Patent Holders agree to sell to Marvel the Patent which will be evidenced by an instrument of assignment in the form of exhibit C hereto. The purchase price for the Patent shall be payable to the Patent Holders as follows:
>
> a. $516,214.62 upon execution and delivery of this Agreement; and
>
> b. 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

Id. at 4 (citing doc. 47: Agreement at 4). The Agreement contains no expiration date.

On January 6, 2006, Marvel entered a licensing agreement with an independent company, Hasbro, effective in 2007, giving Hasbro copyright and trademark rights for Marvel characters in certain toy categories, and Hasbro began making versions of the Web Blaster. *Id.* at 4.

Hasbro refused to sign a sublicense to pay Plaintiffs royalties owed under the Agreement. Since 2007, Hasbro has reported quarterly to Marvel the units sold, and Marvel receives royalties from Hasbro amounting to 10% of net sales of the licensed products. Up until May 2008, Marvel paid Plaintiffs 3% of Hasbro's net sales of various Web Blaster products. On May 23, 2008, Marvel informed Plaintiffs they were not entitled to royalties on Extra Value Items and that it had recalculated the 2007 royalties and determined Marvel had overpaid Plaintiffs by $282,700.00 *Id.* at 4-5.

Plaintiff filed for breach of contract in state court. The action was removed to federal court by Defendant, who answered and counterclaimed for overpayment and declaratory judgment as to its obligations under the Agreement.

The matters have been fully briefed. Plaintiffs filed a Motion for Summary Judgment requesting the Court deny Marvel's counterclaim for the overpayment. (Ps' MSJ) (doc. 47). Plaintiffs/Counterdefendants filed a Motion for Partial Summary Judgment on Marvel's counterclaim of overpayment as to royalties owed on "3% of net product sales" for multifunctional toys, which are those that shoot not only the foam web but shoot additional things like darts, missiles, water, etc. (Ps' MPSJ) (doc. 48). Plaintiffs/Counterdefendants filed a Motion for Summary Judgment seeking declaratory judgment that Marvel continues to be responsible for certain obligations beyond the expiration of the patent, May

25, 2010. (Ps' MSJ) (doc. 49). Plaintiffs/ Counterdefendants filed a Motion for Summary Judgment on Marvel's counterclaim of overpayment as to royalties owed on "3% of net product sales" for "extra value items" of the Web Blaster. (Ps' MSJ) (doc. 50). Plaintiffs filed a Motion for Partial Summary Judgment regarding the definition of "net product sales." (Ps' MPSJ) (doc 51). Defendant, Marvel, filed a Motion for Summary Judgment for a declaratory judgment that any obligation to make payments pursuant to the Agreement terminates on the date the Kimble patent underlying the Agreement expires, May 25, 2010. (MSJ) (doc. 54).

The Magistrate Judge addressed the issues raised in these interrelated summary judgment motions in one R&R, as follows: Section B: whether, as a matter of law, Marvel owes royalties under the Agreement after the patent expires; Section C: whether, as a matter of law, "net product sales" is defined in the Agreement; Section D: whether, as a matter of law, Marvel owes royalties under the Agreement for Hasbro's net product sales, and Section E: whether, as a matter of law, Marvel owes royalties for improved Web Blasters and Extra Value Items.

The Magistrate Judge found that as a matter of law, Marvel is not required to pay royalties under the Agreement after the May 25, 2010, expiration of the Kimble patent. He found there was no genuine issue of material fact regarding the definition of "net product sales" in the Agreement – it means 93% of gross

product sales. He found there are genuine issues of material fact in dispute which preclude summary judgment on the issue of sales by Hasbro for improved Web Blasters and Extra Value Items.

On December 16, 2009, the parties filed Objections to the R&R on the question of law: whether Marvel owes royalties after the expiration of the patent under the terms of the Agreement; whether Marvel owes royalties under the Agreement for Hasbro's "net product sales," and whether "net product sales" is defined as 93% of gross product sales.

PLAINTIFFS/COUNTERDEFENDANTS' OBJECTIONS

Plaintiffs object to Magistrate Judge Ferraro's finding that the royalty Agreement ends when the patent expires. Plaintiffs argue that the Agreement transferred both patented and non-patented rights and while the royalties for the patented rights end with the patent, they do not end for non-patented rights which cover the Web Blaster.

This Court notes that Plaintiffs' position on whether the Web Blaster infringes on the Kimble patent has changed since the 1997 law suit and settlement. On appeal, Kimble argued that the Web Blaster infringed the patent. Kimble had prevailed on his breach of contract claims related to Defendant's oral agreement to not use the ideas he disclosed without negotiating a reasonable royalty payment, but he lost on summary judgment his patent

infringement claim. Defendant appealed the Judgement for Kimble on the breach of contract claim.

The Agreement vacated the Judgment, which had issued in favor of Kimble on the breach of contract claim. The parties agreed for Marvel to purchase the patent at the purchase price of: "$516,214.62 and 3% of "net product sales" (as such term is used in the Judgment) . For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers." "Net product sales," as such term was used in the Judgment referred to the Web Blaster that had been found to *not* infringe on the Kimble patent. The 3% net product sales was deemed to "include product sales that would infringe the Patent *as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.*" This language in the Agreement is arguably in keeping with the parties' interpretations of the Agreement "as transferring the patent right and the rights to the toy idea(s) verbally exchanged between Kimble and Toy Biz in 1990." (R&R at 8.)

"Because the parties are in agreement, and the outcome is the same whether the Agreement transferred only patent rights or both patent and non-patent rights, the [Magistrate Judge] also assessed the latter possibility." *Id.* The Magistrate Judge correctly found that the Agreement is a hybrid under

the law. Plaintiffs' argument that the Agreement creates separable rights, "patent rights" and "non-patent rights" fails because there is no distinction between the royalties for these two. (R&R at 8-9) (discussing hybrid concept from *Pitney Bowes, Inc. v. Mestre,* 701 F.2d 1365, 1371-72 (11th Cir. 1983); *Boggild v. Kenner Products,* 776 F.2d 1315, 1319 (6th Cir. 1985)).

Plaintiffs' argument also fails under the seminal case on the issue, *Brulotte v. Thys Co.,* 379 U.S. 29, 32 (1964), in which the Court held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Id.* at 6. In *Brulotte,* the Court distinguished the situation from ones in which non-patented items are priced based on long-term use or in which different arrangements would apply before and after the expiration of a patent. *Id.* (citing *Brulotte,* 379 U.S. at 31-32). "The Court emphasized that because the terms were the same both before and after expiration of the patent, they were "'unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage.'" *Id., see also Aronson v. Quick Point Pencil Co.,* 440 U.S. 257, 259-262 (1979) (distinguishing a situation with two agreements, one for a 5% royalty for the item in the inventor's pending patent application and the second for a 2 ½% royalty if the patent application was not allowed within five years,

because the 2 ½% royalty did not rely on a patent). As noted by the Magistrate Judge the reduced royalty in *Aronson* was negotiated for the express purpose of compensation in the absence of a patent. The *Aronson* agreement did not offend the principle emphasized in *Brulotte* that it is unlawful to leverage a patent monopoly beyond it expiration.

This Court has read *Zila, Inc. v. Tinnell,* 502 F.3d 1014 (9th Cir. 2007) and agrees with the Magistrate Judge that even though Plaintiffs rely on this case, it does not support them. *Id.* at 7. In *Zila,* the Ninth Circuit considered an Agreement containing a royalty provision for "a five percent (5%) royalty on gross sales of [Zila] of the invention" in perpetuity. *Zila,* 502 F.3d at 1017. It was uncontested that when the parties entered into the Agreement they did not know whether any patent would issue on the invention, and they did not intend the royalties to relate in any way to patents that might or might not be obtained. *Id.* Subsequently, however, patents were obtained. After criticizing *Brulotte* and its progeny, the Ninth Circuit held that for the sake of national uniformity in patent law it would follow the majority view that under *Brulotte* state contract law is preempted "on facts that (1) a patent did *not* issue in [a] case and (2) the underlying agreement provided for a lower royalty if no patent issued than if one did." *Id.* at 1022. The court held that since a patent did issue for the *Zila* invention, *Brulotte* controlled and the royalty provision was unenforceable after the last of the patents covering the invention ended. In *Zila,* the court

applied *Brulotte* to a royalty provision covering "the invention," covering both patent and non-patent rights.

Following *Zila*, the Magistrate Judge correctly applied *Brulotte* in this case to find that the royalty provision is unenforceable after the expiration of the Kimble patent.

DEFENDANT'S OBJECTIONS

Defendant raises two objections: 1) whether Marvel owes royalties for Hasbro's "net product sales" and 2) whether "net product sales" is defined as 93% of gross product sales. (D's Objection at 1.)

First, Defendant objects to what Plaintiffs correctly point out is dicta in the Magistrate Judge's R&R: "'Marvel owes Plaintiffs a 3% royalty for anyone's product sales covered by the Agreement.'" (D's Objection at 2 (quoting R&R at 14)). Specifically, Defendant objects to the following:

> Contrary to Marvel's contention, this would not obligate [Marvel] to pay for sales by an unrelated third-party. A third-party with no relationship to Marvel could not legally manufacture a toy within either of these categories [in paragraph 3.b of the Agreement] because Marvel owns the patent and it owns the right to Spider-Man, and the Web Blaster is a Spider-Man toy. Thus, Marvel has complete control over the sale of any toys within those two categories.

Id. (citing R&R at 13). "Marvel object to the above findings because they misapprehend the facts and overstate Marvel's rights as an intellectual property holder." (D's Objection at 2.)

The issue before the Court has nothing to do with an unrelated third-party. As Defendant recognizes, the "plaintiffs themselves have conceded that the Agreement would not require Marvel to pay royalties on such sales." *Id.* at 3. "Plaintiffs admitted that if a third-party such as Mattel were to independently come out with a toy that infringed the Kimble patent, Marvel would not be obligated to pay Kimble a royalty on Mattel's sales of that product." *Id.* Defendant then argues that because Marvel would not be obligated to pay royalties for a third-party's sales of products covered by the Agreement if the company had no relationship with Marvel, the fact of the licensing relationship between Marvel and Hasbro should not change the result, "given that the [A]greement between Hasbro does not license any of the rights covered by the Agreement." (Objection at 3.)

Whether or not the licensing agreement between Hasbro and Marvel licensed any rights covered by the Marvel-Kimble Agreement is a disputed question of fact to be resolved at trial, and as thoroughly discussed in the R&R the relationship between Hasbro and Marvel does make a difference. "Under the licensing agreement, Marvel receives 10% of Hasbro's net sales for the use of the Spider-Man license and trademark." (R&R at 13.) "Hasbro, which is making

the Web Blaster, is making it as Marvel's assignee and paying Marvel for the rights to do so." (Ps' Reply to D's Objection at 3.) In other words, the 3% royalty provision in the Agreement applies, if a jury finds that Hasbro is manufacturing and selling any product under its licensing agreement with Marvel, covered by the Marvel-Kimble Agreement.

Second, "Marvel objects to the ruling in section III.C of the report and recommendation for the reasons stated in defendant's opposition to plaintiffs' motions for summary judgment section IV.C.4. (dkts. 59 at p. 23-24 and 60.)" (D's Objection at 5.) "In response, Plaintiffs incorporate those relevant portions of their Motion for Summary Judgment." (Ps' Reply at 3.)

Defendant fails to raise a proper objection to the R&R to invoke this Court's *de novo* determination of this portion of the R&R. 28 U.S.C. § 636(b)(1); *see Thomas v. Arn,* 474 U.S. 140, 149-50 (1985) (explaining when no objections are filed, the district court need not review the R&R *de novo*). "The filing of objections to a magistrate's report enables the district judge to focus attention on those issues – factual and legal – that are at the heart of the parties' dispute." *Thomas,* 474 U.S. at 147. Precluding review of any issue not contained in an objection, prevents a litigant from "sandbagging" the district judge by failing to object and then appealing. "Absent such a rule, any issue before the magistrate would be a proper subject for appellate review." Without the rule requiring parties to object, the district court would have to

review every issue in every case, no matter how thorough the magistrate's analysis. The rule promotes the efficient use of judicial resources. *Id.* These principles require a party to do more than simply object, without identifying and explaining the objection. Defendant has done nothing more than the legal equivalent of filing a notice of some nondescript objection.

Nevertheless, the Court has reviewed *de novo* Subsection III.C of the R&R, wherein the Magistrate Judge found that as a matter of law in the Agreement the definition of "net product sales" means 93% of gross product sales. (R&R at 10.) The Court agrees with the Magistrate Judge's conclusion that the Agreement is ambiguous because "net product sales' is not defined, but only refers to the term as used in the Judgment, and the term was not defined in the Judgement. *Id.*

The Magistrate Judge relied on extrinsic evidence of deposition testimony from the 1997 action and the parties' performance under the Agreement through 2006, during the time it was selling toys. The Magistrate Judge found that the Defendant's arguments were conclusory, and Defendant failed to provide any conflicting evidence or any other definition the parties may have intended at the time they adopted the Agreement. The Defendant's unsupported contentions remain unsupported, and as recommended by the Magistrate Judge, this Court finds that the term "net product sales" means 93% of gross product sales.

CONCLUSION

As a matter of law, Defendant is not required to pay royalties under the Agreement after the May 25, 2010 expiration of the patent. As a matter of law, the term "net product sales" in the Agreement means 93% of gross product sales. There are genuine issues of material fact precluding summary judgment on all other issues.

After *de novo* review of the issues raised in the parties' Objections, this Court agrees with the findings of fact and conclusions of law made by the Magistrate Judge in his Report and Recommendation for determining the pending motions.

Accordingly,

IT IS ORDERED that the Report and Recommendation is adopted as the Opinion of the Court.

IT IS FURTHER ORDERED that the Plaintiff's Motion for Summary Judgment (doc. 49) is DENIED; the Defendant's Motion for Summary Judgment (doc. 54) is GRANTED.

IT IS FURTHER ORDERED that Plaintiff's Motion for Partial Summary Judgment (doc. 51) is GRANTED.

IT IS FURTHER ORDERED that all other summary judgment motions (doc. 47,48, 50) are DENIED.

IT IS FURTHER ORDERED WITHDRAWING THE REFERENCE from Magistrate Judge Ferraro.

This matter shall be tried by the Honorable David C. Bury.

IT IS FURTHER ORDERED that the parties shall file a Joint Pretrial Order by March 26, 2010. (*See* attached form of Order.) Subsequently, the Court shall set a pretrial conference and the trial date will be set at the pretrial conference.

DATED this 1st day of March, 2010.

/s/ David C. Bury
David C. Bury
United States District Judge

FORM OF PRETRIAL ORDER
IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA

Plaintiff,	)	CV TUC DCB
	)	**PRETRIAL ORDER**
v.	)	
	)	
Defendant.	)	

(Although the text of the pretrial order appears in single space, the actual order submitted by the parties must be double spaced and conform in all other respects to the Local Rules.)

The following are pretrial proceedings in this cause pursuant to Rule 16.2 of this Court, and **IT IS ORDERED**:

I. NATURE OF ACTION

This is an action for: (Short concise statement of the case, including the nature of the action and the relief sought.)

II. STATEMENT OF JURISDICTION

Statement of jurisdiction: (state the claims and cite the statutes which give this Court jurisdiction over each claim.)

III. CONTESTED ISSUES OF LAW/FACT

State the ultimate issues of fact and law which must be decided at trial. State only the issues of fact and law necessary and material for a verdict in this case. Each issue must be stated separately and specifically.

IV. LIST OF EXHIBITS

Each party shall list the exhibits it intends to offer at trial.

V. LIST OF WITNESSES

Each party shall list the witnesses it intends to call at trial.

VI. JURY TRIAL or BENCH TRIAL

The parties shall state whether the trial is a jury or bench trial.

For a Jury Trial

At the Pretrial Conference, the Court will direct the parties to file proposed voir dire, objections to exhibits, deposition testimony, stipulated jury instructions, counsel's additional proposed jury instructions, motions in limine, and trial memoranda 20 days prior to trial. Any opposition shall be filed five days thereafter.

For a Bench Trial

At the Pretrial Conference, the Court will direct the parties to file trial briefs, objections to exhibits, motions in limine, and proposed findings of fact and conclusions of law 20 days prior to trial. Any opposition shall be filed five days thereafter.

VII. PROBABLE LENGTH OF TRIAL

Each party shall identify the estimated length of time it will take to present its case.

VIII. CERTIFICATION

The undersigned counsel for each of the parties in this action do hereby approve and certify the form and content of this proposed Joint Pretrial Order.

Attorney for Plaintiff

Attorney for Defendant

This Joint Pretrial Order is hereby approved on this ___ day of ___, 2006.

David C. Bury
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA

Stephen Kimble and Robert Grabb, Plaintiffs, vs. Marvel Enterprises, Inc., Defendant.	)	No. CV-08-372-TUC-DCB-DTF **REPORT AND RECOMMENDATION** (Filed Dec. 2, 2009)

Pending before the Court are Plaintiffs' five Motions for Summary Judgment and Defendant's Motion for Summary Judgment. (Dkts. 47-51, 54.) Both parties have filed responses and replies. (Dkts. 59, 63, 64, 67.) Pursuant to the Rules of Practice in this Court, the matter was assigned to Magistrate Judge Ferraro for a report and recommendation. The Magistrate Judge recommends the District Court, after its independent review of the record, enter an order granting Defendant's motion on termination of royalties when the patent expires, granting Plaintiffs' motion on the definition of "net product sales," and denying Plaintiffs' four other motions.

I

PROCEDURAL BACKGROUND

In 1997, Plaintiff Kimble filed suit against Toy Biz (the predecessor of Marvel) in this Court, *Kimble v. Toy Biz, et al.*, No. CV97-557-TUC-RCC (the 1997

Action), alleging patent infringement and breach of contract based on an alleged oral agreement. The patent claim was resolved on a motion for summary judgment in favor of Marvel. Thereafter, Kimble obtained a judgment against Toy Biz on the contract claim. Both parties appealed. In 2001, while the appeals were pending, the parties entered a settlement agreement (Agreement). In 2008, Plaintiffs filed this action, alleging breach of the Agreement.[1] (Dkt. 1, 23.) Defendant counterclaimed seeking a declaratory judgment and alleging unjust enrichment. (Dkt. 33.) After completing discovery, the parties filed the instant motions. On November 6, 2009, the Court heard oral argument on the motions.

II

MOTION FOR SUMMARY JUDGMENT STANDARD

Summary judgment is proper if the evidence shows there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c); *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). The moving party must produce evidence and persuade the court there is no genuine issue of material fact. *Nissan Fire & Marine Ins. Co., Ltd. v. Fritz Cos., Inc.*, 210 F.3d 1099,

---

[1] Plaintiffs' complaint also alleged bad faith, fraud, and unjust enrichment. The parties stipulated to dismissal of those counts. (Dkt. 29.)

1102 (9th Cir. 2000). A material fact is one that might affect the outcome of the suit under the governing law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). A factual issue is genuine "if the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Id.*

To defeat a motion for summary judgment, the nonmoving party must show that there are genuine issues of material fact. *Id.* at 250. When the moving party has carried its burden under Rule 56(c), the nonmoving party must produce evidence to support its claim or defense by more than simply showing "there is some metaphysical doubt as to the material facts." *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986). However, the court presumes the nonmoving party's evidence is true and draws all inferences from the evidence in the light most favorable to the nonmoving party. *Eisenberg v. Ins. Co. of North America*, 815 F.2d 1285, 1289 (9th Cir. 1987). Each numbered paragraph of the moving party's separate statement of facts shall be deemed admitted for purposes of the motion for summary judgment if not specifically controverted by a correspondingly numbered paragraph in the opposing party's separate statement of facts. LRCiv 56.1(b).

III

DISCUSSION

Plaintiffs moved for summary judgment on Defendant's Counterclaims 1(a), 2, 3, 4, and the definition

of "net product sales" in the Agreement. Defendant moves for summary judgment on its Counterclaim 1(a).

A. Relevant Undisputed Facts[2]

Kimble is the inventor of a web shooting toy described in U.S. Patent No. 5,072,856. (Dkt. 49-3.) The Kimble patent expires no later than May 25, 2010. (Dkt. 33, ¶ 31; Dkt. 44, ¶ 1.) The 1997 Action, *Kimble v. Toy Biz, et al.*, No. CV97-557-TUC-RCC, alleged patent infringement and breach of an oral contract. (Dkt. 49-4.) Kimble alleged that in 1990 he met with Toy Biz president Lou Schwartz to discuss Kimble's patent application and related ideas. At that meeting, Schwartz agreed that Toy Biz would not use the ideas disclosed by Kimble without first negotiating a reasonable royalty payment for their use. (*Id.*, ¶¶ 26, 27.)

Kimble also alleged in the 1997 Action that Toy Biz subsequently made and sold a "Web Blaster" toy based on Kimble's ideas, but refused to pay Kimble any royalty. (*Id.*, ¶ 30.) The Web Blaster is a role play toy whose primary play value is to allow the user to adopt aspects of Marvel's Spider-Man character by shooting foam string. (Dkt. 56-2 at 4.) The District Court ruled as a matter of law that the Web Blaster

---

[2] The relevant undisputed facts were taken from the parties' statements of facts, responses, and replies thereto. (Dkts. 47-1, 48-1, 49-1, 50-1, 51-1, 55, 60, 63-1, 66, 67-1.)

did not infringe the Kimble patent, but that the claims concerning the verbal agreement involved disputed issues of fact for a jury to decide. (Dkt. 49-5.)

After a jury trial on the breach of contract claim, the District Court entered judgment in favor of Kimble and against Toy Biz, finding that the Web Blaster was covered by the verbal agreement and awarding "the full damages to be 3.5% of net product sales, past, present and future excluding refill royalties." (Dkt. 49-6.) Both parties appealed the judgment.

While appeal was pending, on September 21, 2001, Plaintiffs Kimble and Grabb (the "Patent Holders")[3] entered the Agreement with Defendant Marvel to end the pending litigation. (Dkt. 47-3.) Thereafter, the appeals were withdrawn and the judgment vacated. (*Id.* at 3.) The key provision of the Agreement relevant to the instant matter provides:

> 3. Marvel agrees to purchase from the Patent Holders and the Patent Holders agree to sell to Marvel the Patent which will be evidenced by an instrument of assignment in the form of exhibit C hereto. The purchase price for the Patent shall be payable to the Patent Holders as follows:

---

[3] Robert Grabb is not on the patent application nor was he a party to the 1997 Action, rather, he acted as Kimble's attorney during that proceeding. He is a signatory of the Agreement and a party to the instant case.

> a. $516,214.62 upon execution and delivery of this Agreement; and
>
> b. 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

(*Id.* at 4.) The Agreement contains no expiration date.

David Fremed, Toy Biz CFO, testified in the 1997 Action that "net sales" in the industry meant "gross sales of certain products less some reserve associated with deductions, discounts, returns, allowances." Marvel used a fixed 7% as that reserve, a "P&L allowance." (Dkt. 51-4 at 3-5; Dkt. 62-8 at 7; Dkt. 62-2 at 4.) During 2001-2006, Marvel paid 3% royalties on 93% of the invoiced sale of Web Blasters, taking 7% off as a "P&L allowance." (Dkt. 61, ¶ 4; Dkt. 51-4 at 5-6.)

On January 6, 2006, Marvel entered a licensing agreement with Hasbro. (Dkt. 73 (sealed).) The licensing agreement gave Hasbro copyright and trademark rights for Marvel characters in certain toy categories, including role-play toys. (Dkt. 50-6 at 3.) Hasbro began making versions of the Web Blaster pursuant to the licensing agreement in 2007. (*Id.* at 5.) While negotiating the Agreement, the parties never discussed

what would happen if Marvel stopped making Web Blasters and entered into a licensing agreement. (Dkt. 62-1 at 9)[4]

Between August 2006 and May 2007, Marvel negotiated with Hasbro to sign a Toy Technology Sublicense Agreement, which would have obligated Hasbro to pay Plaintiffs the royalties owed under the Agreement; Hasbro declined to sign the sublicense. (Dkt. 50-6 at 13-14; Dkts. 50-8, 50-9.) Since 2007, Hasbro has sold several versions of the Web Blaster, some of which are packaged in kits with "Extra Value Items." (Dkt. 62-10 at 6-15.) Hasbro also has been selling the Ultimate Web Blaster, which rotates through five shooting functions. (Dkt. 62-10 at 7-15; Dkt. 62-11.) Since 2007, Hasbro has reported quarterly to Marvel the units sold (Dkt. 62-8 at 6) and has paid Marvel royalties amounting to 10% of net sales of the licensed products (Dkt. 50-6 at 10-11).

Up until May 2008 (which included payments for all of 2007), after the resolution of some disputes, Marvel paid Plaintiffs 3% of Hasbro's net sales of various Web Blaster products. (Dkt. 67-35; Dkt. 50-4, ¶ 6; Dkt. 50-5, ¶ 6; Dkt. 60 at 10, ¶ 7; Dkt. 61, ¶ 8.) These royalties included payments for Web Blaster kits with Extra Value items. (Dkt. 50-4, ¶ 6; Dkt. 50-5, ¶ 6; Dkt. 50-2 at 2, ¶ 7; Dkt. 60 at 10, ¶ 7; Dkt. 61,

---

[4] Marvel has not manufactured or directly marketed any Web Blasters since prior to 2007. (Dkt. 60 at 20, ¶ 21; Dkt. 67-1 at 17, ¶ 21.)

¶ 7.) Plaintiffs exercised their right to audit Marvel's financial records with respect to the 2007 net product sales. (Dkt. 23, ¶ 12; Dkt. 33, ¶ 12.) On May 23, 2008, Marvel informed Plaintiffs they were not entitled to royalties on Extra Value Items and Marvel had recalculated 2007 royalties and determined Marvel had overpaid Plaintiffs by $282,700. (Dkt. 62-4.)

B. Whether, as a Matter of Law, Marvel Owes Royalties Under the Agreement After the Patent Expires

Both Plaintiffs and the Defendant seek summary judgment on the issue of whether royalty payments extend beyond the patent's expiration, May 25, 2010 (Counterclaim 1(a)). Plaintiffs contend royalties are due under the Agreement for as long as Marvel receives revenue for Web Blaster sales. Defendant argues the royalty provision in the Agreement is unenforceable after the patent expires. The opposing motions demonstrate that both parties agree there is no issue of material fact and summary judgment is appropriate. The Court agrees that this is purely a legal question.

The seminal case on this issue is *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1965), which held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se." In *Brulotte*, a patent-owner sold a hop-picking machine for a flat fee and issued a license, which made payable an annual royalty and also precluded

assignment of the license or removal of the machine from the county. 379 U.S. at 29. The Court found the licensing agreement unenforceable after expiration of the patent because to conclude otherwise would allow assertion of the monopoly power of the patent beyond its term. *Id.* at 33. The Court distinguished the situation from ones in which non-patented items are priced based on long-term use or in which different arrangements would apply before and after the expiration of a patent. *Id.* at 31-32. The Court emphasized that because the terms were the same both before and after expiration of the patent, they were "unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage." *Id.* at 32.

The Court subsequently distinguished a situation in which an inventor and a manufacturer entered two agreements, one for a 5% royalty for the item in the inventor's pending patent application, and the second for a 2 ½% royalty if the patent application was not allowed within five years. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 259 (1979). The Court distinguished *Brulotte* because the contract for a 2 ½% royalty did not rely on a patent. *Id.* at 262 (finding that federal law did not preempt state contract law in this situation). The reduced royalty was negotiated for the express purpose of compensation in the absence of a patent. Hence, the *Aronson* agreement did not offend the principle emphasized in *Brulotte* – it is

unlawful to leverage a patent monopoly beyond its expiration. *Id.* at 265. The Court noted that "[n]o doubt a pending patent application gives the applicant some additional bargaining power for purposes of negotiating a royalty agreement," which cannot extend beyond a patent term; however, because the lower royalty rate was negotiated for the express contingency of no patent, it was enforceable. *Id.*

Plaintiffs rely on *Zila, Inc. v. Tinnell*, 502 F.3d 1014 (9th Cir. 2007), to support their argument that this Court should give effect to the parties' intent that the royalty continue as long as the toys are sold. *Zila* is the leading Ninth Circuit case on this issue and it involved a contract intended by the parties to, and drafted to, grant a 5% royalty in perpetuity on sales of a herpes treatment in exchange for all rights to the treatment, including any future patents (four of which were eventually obtained). 502 F.3d at 1016. Contrary to Plaintiffs' argument, the Ninth Circuit was unable to enforce the parties' intent because it found that "*Brulotte* preempts state law with regard to a contract for payment of royalties on the sale of an invention that may be patented, if a patent indeed issues." *Id.* at 1020, 1022. Thus, *Zila* illustrates that *Brulotte* may override the parties' intent regarding the length of a royalty provision.

Here, the parties are in accord that the Agreement provided for the sale of a patent right.[5] Whether the Agreement also transferred non-patent rights is less clear. The plain language of paragraph three of the Agreement provides that the only right Plaintiffs transferred to Marvel was the patent. "The purchase price for the Patent shall be" royalty payments for two categories of toys (infringing and the Web Blaster previously litigated). (Dkt. 47-3, ¶ 3.) Although royalties are due for sales of the Web Blaster, there is no release or transfer relating to the Web Blaster. In fact, paragraph 9 of the Agreement provides: "Except for the obligations undertaken by Marvel in this Agreement and except for those obligations under the alleged verbal agreement that was the subject of the Action, the Patent Holders hereby release and discharge Marvel. . ." (Dkt. 47-3, ¶ 9.) Plaintiffs contend this language demonstrates the Agreement provided obligations separable from the patent. Although Plaintiffs may have reserved non-patent rights, the Agreement does not clearly transfer any of these non-patent rights. Paragraph nine more reasonably suggests that Plaintiffs reserved the non-patent rights from the verbal agreement and did not transfer them to Marvel.

The plain language of the Agreement clearly relies on a patent and does not have separate provisions for non-patent rights, the distinction made by

---

[5] Plaintiffs' attorney reaffirmed the Agreement provided for the sale of Plaintiff's patent at oral argument.

Aronson. Because the Agreement is premised on a patent, *Brulotte* controls and the royalty cannot extend beyond the life of the patent.

Despite the plain language of the Agreement, both parties interpret the Agreement as transferring the patent right *and* the rights to the toy idea(s) verbally exchanged between Kimble and Toy Biz in 1990. At oral argument, Defendant could not identify any language in the Agreement that transferred a non-patent right. Nevertheless, Defendant asserted the transfer of non-patent rights was implicit in the Agreement. Because the parties are in agreement, and the outcome is the same whether the Agreement transferred only patent rights or both patent and non-patent rights, the Court will also assess the latter possibility.

Plaintiffs contend that, pursuant to the royalty provision of the Agreement there are separable rights, "patent rights" and "non-patent rights." Under their interpretation, in consideration for non-patent rights there is a 3% royalty on the non-infringing toys, which is distinct from the 3% royalty for infringing toys. They agree that no royalties would be due for infringing products after the expiration of the patent, but argue for the continuation of royalty payments for toys not tied to the patent. Defendant contends there is no distinction between royalties for patent rights and those for non-patent rights. Therefore, they conclude the Agreement is a hybrid under the law. To the extent the Agreement can be

interpreted as transferring non-patent rights, the Court agrees with Defendant.

In *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1371-72 (11th Cir. 1983), the circuit court emphasized that a "hybrid" agreement providing royalties for patent rights and trade secrets was no different than *Brulotte* which licensed both patent rights and "use." Because restrictions and royalties applied the same before and after the expiration of the patent, which indicates the projection of the patent monopoly beyond its period, the agreement was unenforceable beyond the patent expiration. *Id.* at 1373. The Sixth Circuit followed the Eleventh, holding, "enforcement of royalty provisions for other rights which conflict with and are indistinguishable from royalties for patent rights, is precluded." *Boggild v. Kenner Products*, 776 F.2d 1315, 1319 (6th Cir. 1985). Here, the Agreement does not distinguish royalties for the patent from those paid for non-patent rights, or royalties before and after the patent expires.

The inseparability of the rights transferred is illustrated by the history of the Agreement. When the Agreement was executed, Plaintiffs believed Marvel was infringing their patent and were pursuing an appeal to vindicate this belief. Thus, patent rights and infringement were still in dispute and the parties entered into the Agreement to settle all issues, patent and contract, in order "to avoid the further expense and distraction of litigation." (Dkt. 47-3 at 2, ¶ E.) To that end, the Agreement included a royalty for certain toys, infringing or not. Since the signing of the

Agreement, the parties have continued to take various positions on whether any toys sold would have infringed the patent. (Dkt. 48-7 at 10-11; Dkt. 56-2 at 5-7; Dkt. 67-36 at 3-4; Dkt. 67-37 at 6.) The Agreement created no distinction, nor has one been made by the parties, for royalty payments for infringing versus non-infringing toys.

Although conceding the patent was part of the bargain at oral argument, Plaintiffs contended that their leverage in negotiating the Agreement was the judgment not the patent. As noted above, the issue of patent rights and infringement were actively in dispute and the Agreement was negotiated to settle those issues. The Sixth Circuit held in *Boggild* that when anticipated patents are used as leverage to negotiate a royalty agreement, regardless of the fact that the application has not been filed, *Brulotte* invalidates the agreement to the extent it extends beyond expiration of the eventually-issued patent. 776 F.2d at 1319. The Seventh Circuit has similarly held that a contract transferring an "invention" and the right to seek a patent for the invention, triggers *Brulotte* once a patent issues because the patent possibility put the inventor in a stronger bargaining position. *Meehan v. PPG Indust., Inc.*, 802 F.2d 881, 885 (7th Cir. 1986). Here, because a patent was used as leverage to negotiate the Agreement, which transferred the patent rights, it fits squarely within the parameters of *Brulotte*. *See Aronson*, 440 U.S. at 265.

Accordingly, the Court finds the Agreement is governed by *Brulotte* and the royalty provision is unenforceable after expiration of the patent. This is true if the Agreement is interpreted as transferring only a patent right, in which case the royalty provision is clearly premised on a patent, or if the Agreement is a hybrid and transfers patent and non-patent rights for royalties that are inseparable between the two rights.

C. Whether, as a Matter of Law, "Net Product Sales" is Defined

Plaintiffs seek summary judgment on the definition of the term "net product sales" in the Agreement. Plaintiffs contend that "net product sales" means 93% of gross product sales.

The Agreement is governed by New York law. (Dkt. 47-3 at 7, ¶ 14.) When interpreting a contract, the goal is to give effect to the parties' intent. *Hartford Accident & Indem. Co. v. Wesolowski*, 305 N.E.2d 907, 909 (N.Y. 1973). "Whether an agreement is ambiguous is a question of law for the courts." *Kass v. Kass*, 696 N.E.2d 174, 181 (N.Y. 1998). Here, the Agreement is ambiguous because "net product sales" is not defined. The Agreement only provides that the term is used as it "is used in the Judgment," (Dkt. 47-3, ¶ 3.b) but that term is not defined in the judgment. If a contract is ambiguous, courts may consider

extrinsic evidence to interpret it.[6] *Hartford Accident & Indem.*, 305 N.E.2d at 909.

The available extrinsic evidence includes testimony in the 1997 Action defining "net product sales" and the parties' course of performance. The CFO for Toy Biz, David Fremed, testified in a deposition for the 1997 Action that in the industry "net sales" is "gross sales of certain products less some reserve associated with deductions, discounts, returns, allowances." (Dkt. 51-4 at 3-5.) Marvel used a fixed 7% for that reserve, referred to as a "P&L allowance." (*Id.*) Plaintiffs believed, at the time they entered the Agreement, that "net product sales" meant 93% of gross product sales. (Dkt. 51-5, ¶1; Dkt. 51-6, ¶1.) The same definition for net sales provided by Fremed was reiterated by other Marvel executives in depositions for this case. (Dkt. 62-8 at 7; Dkt. 62-2 at 4.)

---

[6] Relying primarily on New York law, Defendant suggests that if the Court has to look to extrinsic evidence, disputed issues of fact are necessarily implicated and summary judgment is precluded. (Dkt. 59 at 19, 20.) First, although New York law governs the substantive contract issues before the Court, such as which facts are material, the ultimate question, whether there is a genuine dispute of fact, is assessed under federal standards. *See Anderson*, 477 U.S. at 248-49 (the court determines if there is a factual issue that a jury could reasonably resolve in favor of either party). Second, New York law does not require such a rule. *See Federal Ins. Co. v. Americas Ins. Co.*, 258 A.D.2d 39, 44-45 (N.Y. App. Div. 1999) (when the moving party sets forth extrinsic evidence of the parties' intent and the responding party does not provide any conflicting evidence, summary judgment is properly granted).

From 2001 to 2006, Marvel paid Plaintiffs 3% royalties on 93% of the invoiced sales of Web Blasters, taking 7% off as a "P&L allowance." (Dkt. 61, ¶ 4; Dkt. 51-4 at 5-6.) "The parties' course of performance under the contract is considered to be the 'most persuasive evidence of the agreed intention of the parties.'" *Federal Ins. Co. v. Americas Ins. Co.*, 258 A.D.2d 39, 44 (N.Y. App. Div. 1999) (the parties' interpretation for "any considerable period of time before it comes to be the subject of controversy is deemed of great, if not controlling, influence.").

Marvel argues that, with respect to a particular agreement, the term "net sales" to which Fremed testified might be a "completely different term" from "net product sales." While "net sales" and "net product sales" might not have the same meaning in varying contexts, Marvel's contention that they did not mean the same thing as to the Agreement between the parties is unsupported. Testimony by Marvel executives does not establish any distinction between net sales and net product sales, at least with respect to this Agreement. (Dkt. 62-2 at 4.) To the contrary, Marvel confirms that it paid royalties on 93% of invoiced sales through 2006 when it was selling toys. Marvel does not contend that these payments were erroneous or that was not the intended definition. Rather, it makes the conclusory argument that "this does not establish that 93% of the 'invoiced sales' is the definition of 'net product sales' as an undisputed fact." (Dkt. 59 at 28.) Defendant does not provide any conflicting evidence or any other definition the

parties may have intended. An unsupported assertion is insufficient to create a "genuine issue for trial." *Matsushita*, 475 U.S. at 586-87.

Marvel further argues that 93% is no longer the appropriate number because, since 2007, Hasbro has been the decision-maker regarding the packaging and selling of the toys. Up until Hasbro began selling the Web Blaster there was no dispute that "net product sales" meant 93% of gross product sales. Marvel provides no explanation or evidentiary support for how their licensing agreement with Hasbro, effective in 2007, alters what the parties intended the term "net product sales" to mean in their 2001 Agreement.[7]

In sum, Plaintiffs set forth undisputed facts regarding what the parties understood "net product sales" to mean at the time they entered the 2001 Agreement, and how it was used in royalty payments up through 2006. It was consistently interpreted to mean 93% of gross product sales. Marvel has not produced any conflicting evidence to alter that definition. Thus, summary judgment for Plaintiffs is appropriate.

---

[7] Defendant points to Plaintiffs' assertion that, since 2007, Marvel has paid royalties on 87.2% of Hasbro's gross sales of Web Blasters, not on 93% (Dkt. 62-9 at 4). In addition to the fact that this unproven, it is not material to resolving the parties' intention as to the definition of "net product sales" in the 2001 Agreement.

D. Whether, as a Matter of Law, Marvel Owes Royalties Under the Agreement For Hasbro's Net Product Sales

Counterclaim 2 alleges that Marvel mistakenly paid Plaintiffs for Hasbro's sales in 2007, unjustly enriching Plaintiffs, when the Agreement did not require payments for sales by Hasbro.[8] Plaintiffs seek summary judgment on their entitlement to royalties for Hasbro's sales of toys. As discussed in more detail below, the Court finds there are triable issues of fact regarding whether the toys manufactured by Hasbro are within the scope of the Agreement.

The plain language of the Agreement obligated Marvel to pay a 3% royalty to Plaintiffs for any products within the two categories specified by the Agreement – products that would infringe the patent and the Web Blaster litigated in the prior Action. The Agreement has no limitations based on who is manufacturing and/or marketing the products. Contrary to Marvel's contention, this would not obligate it to pay for sales by an unrelated third-party. A third-party with no relationship to Marvel could not legally manufacture a toy within either of these categories

---

[8] In relation to this claim, Plaintiffs contends the Hasbro license amounts to an assignment of Marvel's rights under the Agreement; Defendant disagrees. Whether any rights were legally assigned to Hasbro, the parties agree that no duties relative to the Agreement were assigned. (Dkt. 47 at 5; Dkt. 59 at 14; Dkt. 67 at 9.) Resolution of whether there was an assignment of rights to Hasbro is irrelevant because any duty remains with Marvel.

because Marvel owns the patent and it owns the right to Spider-Man, and the Web Blaster is a Spider-Man toy. Thus, Marvel has complete control over the sale of any toys within those two categories.

Under the licensing agreement, Marvel receives 10% of Hasbro's net sales for the use of the Spider-Man license and trademark. (Dkt. 50-6 at 3, 10.) Marvel argues that continuing its 3% royalty obligation to Kimble would lead to an absurd result requiring Marvel to pay 30% of the royalties they received from Hasbro to Plaintiffs. If this is an absurd result, it was created by Marvel with full knowledge of its obligations under the Agreement.[9] Additionally, the 30% figure on which Marvel relies has little meaning in the abstract. There is no evidence in the record regarding Marvel's profit when it manufactured the Web Blaster, and the percentage of that paid to Plaintiffs, versus its profit as a licensor, and what percentage of that the 3% royalty constitutes.

Marvel's remaining arguments based on the plain language of the Agreement, in support of their position that no royalty is due for Hasbro's sales, are unpersuasive. Marvel argues that it would not be able to provide the information required by the Agreement for a third-party's sales – quarterly reports of net

---

[9] Marvel apparently attempted to avoid this result by obligating Hasbro to pay Plaintiffs the royalties owed under the Agreement through a Toy Technology Sublicense Agreement. (Dkt. 50-6 at 13-14; Dkts. 50-8, 50-9.)

product sales, number of units sold, and price – nor would it have obligated itself to late payment provisions that could be impacted by a third-party. Marvel could control its ability to meet these obligations by including them in the terms of any subsequent licensing agreement, which it did in its agreement with Hasbro. Similarly, Marvel argues that if it owed Plaintiffs for *any* third-party sales, Plaintiffs' right under the Agreement to examine Marvel's financial records as to net product sales would be rendered meaningless, as those records would contain no relevant information. Because all sales within the Agreement are controlled by Marvel, and Marvel profits from Hasbro's sales, Marvel's records would, and do, provide the relevant financial information. These provisions of the Agreement do not make the existence or nonexistence of an obligation to pay Plaintiffs royalties on Hasbro's net product sales more or less probable. The Court concludes that, under the plain language of the Agreement, Marvel owes Plaintiffs a 3% royalty for anyone's product sales covered by the Agreement.

Notwithstanding this finding, there remains an ambiguity precluding summary judgment – whether any toys sold by Hasbro come within the toy categories covered by the royalty provision of the Agreement. Whether Hasbro sold any toys that would infringe the patent is a legal issue not before the Court. Also, there are genuine issues of fact regarding whether any toys sold by Hasbro are properly categorized as the "Web Blaster product that was the

subject of the Action and to which the Judgment refers." Although the toy that was litigated during the 1997 Action was one specific version of the Web Blaster, Marvel has made royalty payments to Plaintiffs for many later-developed versions of the Web Blaster. Thus, determining what toys the parties intended to be covered by the Agreement will require examining the course of performance and the specific toys for which royalties are in dispute. In particular, as discussed below, the parties dispute whether Hasbro' s Ultimate Web Blaster is entirely within the terms of the Agreement. Additionally, Marvel made payments to Plaintiffs for sales by Hasbro in 2007 (Dkt. 67-35), which it asserts were made in error, and Marvel negotiated, without completing a contract, for Hasbro to take over royalty payments to Plaintiffs (Dkt. 50-6 at 13-14; Dkts. 50-8, 50-9). The relevance of these facts is a matter for the trier of fact.

Accordingly, Plaintiffs are not entitled to summary judgement on Counterclaim 2.

E. Whether, as a Matter of Law, Marvel Owes Royalties for Improved Web Blasters and Extra Value Items

Marvel alleges Plaintiffs were overpaid in 2007 for "kits," which included a Web Blaster and Extra Value Items (Counterclaim 3) and improved Web Blasters (Counterclaim 4). Plaintiffs move for summary judgment on both these claims.

Plaintiffs interpret the Agreement broadly and argue the plain language does not allow for a reduction in royalty payments based on improved Web Blaster functions nor does it distinguish between a product that includes Extra Value Items and one that does not. The Court agrees with Defendant that the plain language of the Agreement does not address this situation. Rather, it is ambiguous regarding whether royalties are due for Extra Value Items packaged with a Web Blaster or for Web Blaster versions developed after the 1997 Action. Thus, the Court must assess whether the parties' intent can be discerned from undisputed extrinsic evidence.

With respect to Extra Value Items, Plaintiffs rely on the parties' course of performance from 2001 through May 2008 – Marvel paid royalties on the entirety of kits (Dkt. 50-4, ¶ 6; Dkt. 50-5, ¶ 6; Dkt. 50-2 at 2, ¶ 7; Dkt. 60 at 10, ¶ 7; Dkt. 61, ¶ 7) – as proof that there is no genuine issue of fact.[10] Marvel agrees such payments were made, but asserts they were made in error. Marvel provided a declaration from Kenneth West, Marvel's Chief Financial Officer, who attested that Marvel's payments for Extra Value Items without any deduction or allocation were a mistake, which it did not realize until it entered the licensing agreement with Hasbro. (Dkt. 61, ¶¶ 7, 10.) Marvel's assertion that its payments for Extra Value

---

[10] Web Blasters packaged with Extra Value items were sold with a single SKU number. (Dkts. 50-4, ¶ 3; Dkt. 50-5, ¶ 3; Dkt. 60 at 10, ¶ 4.)

Items were made in error raises a credibility issue and a question of fact. Whether the course of performance evidences the parties' intent under the Agreement as to sales of Extra Value Items by Hasbro is a factual dispute for the trier or fact precluding summary judgment on Counterclaim 3.

With respect to "improved" Web Blasters, Defendant argues Plaintiffs are only entitled to a partial royalty for the Ultimate Web Blaster sold by Hasbro, which it categorizes as the first "multi-function" Web Blaster. Plaintiffs counter that Marvel has always paid full royalties on Web Blasters with multiple functions, such as the Dual Action and Triple Action Web Blasters and the Mega Blast Web Shooter that shot silly string, water, and darts. (Dkts. 67-14 to -17.) Defendant does not dispute that it sold toys with those functions, but claims the Ultimate Web Blaster incorporates all the functions into a single unit and does not require the user to change out canisters to use different functions. The Court cannot resolve on summary judgment whether the Ultimate Web Blaster is factually and functionally distinct from the original Web Blaster or the other products previously sold by Marvel, such that the parties' course of performance is not persuasive evidence of the parties' intent regarding royalty payments for the Ultimate Web Blaster. *See Federal Ins. Co.*, 258 A.D.2d at 44 (the parties' interpretation for "any considerable period of time before it comes to be the subject of controversy is deemed of great, if not controlling, influence.").

Additionally, Marvel contends the attachments for the prior improved versions of the Web Blaster, sold by Marvel, were properly categorized as Extra Value Items for which Marvel should not have made full payment. Because the factual dispute regarding Extra Value Items cannot be resolved on summary judgment, as discussed above, that is another issue of material fact precluding summary judgment regarding the Ultimate Web Blaster. Whether the Ultimate Web Blaster is a product within the scope of the Agreement is a question of fact precluding summary judgment on Counterclaim 4.

Plaintiffs' alternative legal theory of accord and satisfaction with respect to the Ultimate Web Blaster is unpersuasive. According to Plaintiffs, their acceptance of a check from Marvel, after a dispute over royalties for the Ultimate Web Blaster, acted as an accord and satisfaction.[11] *See Patel v. Orma*, 593 N.Y.S.2d 851, 853 (App. 1993) (acceptance of a check in full settlement of a disputed claim amounts to an accord and satisfaction). Acceptance of a check only operates a release if the parties are on notice of such a consequence, *see Sorrye v. Kennedy*, 699 N.Y.S.2d 214, 215-16 (App. Div. 1999), and there is no evidence

---

[11] On December 13, 2007, Plaintiffs inquired with Marvel's CFO, Ken West, why the Ultimate Web Blaster was not included in the 2007 third quarter report. (Dkt. 48-7 at 2.) After partial payment and further debate (*see* Dkts. 48-7, 48-8), on January 28, 2008, Marvel agreed to pay full royalties for the Ultimate Web Blaster. (*Id.* at 17; Dkt. 48-10.)

the parties reached such an understanding regarding the Ultimate Web Blaster. (*See* Dkt. 48-7.) Further, accord and satisfaction requires new consideration and a meeting of the minds. *Id.* at 216 (citing *Komp v. Raymond*, 67 N.E. 113 (1903)). The items Plaintiffs cite as consideration, foregoing interest payments and their right to sue, were never mentioned during the email exchanges. (Dkt. 48-7.) Further, the parties December 2007 to January 2008 email exchanges, which is the only evidence on which the parties' rely, do not establish a meeting of the minds and the execution of a new contract. (*Id.*) Plaintiffs are not entitled to summary judgment on their defense of accord and satisfaction.

IV

RECOMMENDATION

Defendant Marvel is entitled to summary judgment as a matter of law on Counterclaim 1(a) – Marvel is not required to pay royalties under the Agreement after the May 25, 2010 expiration of the patent. Therefore, the Magistrate Judge recommends the District Court, after its independent review of the record, deny Plaintiffs' Motion for Summary Judgment (Dkt. 49) on this issue and grant Defendant's motion (Dkt. 54). Plaintiffs have demonstrated there is no genuine issue of material fact regarding the definition of "net" product sales in the agreement – it means 93% of gross product sales. Thus, the Magistrate Judge recommends the District Court, after its

independent review of the record, grant Plaintiffs' motion for summary judgment on this issue (Dkt. 51.) There are genuine issues of material fact precluding summary judgment on the issue of sales by Hasbro, improved Web Blasters and Extra Value Items. Therefore, the Magistrate Judge recommends the District Court, after its independent review of the record, deny summary judgment on Counterclaims 2, 3 and 4 (Dkts. 47, 48, 50).

Pursuant to Federal Rule of Civil Procedure 72(b)(2), any party may serve and file written objections within 14 days of being served with a copy of this Report and Recommendation. If objections are not timely filed, they may be deemed waived. If objections are filed, the parties should use the following case number: **CV-08-372-TUC-DCB**.

DATED this 2nd day of December, 2009.

/s/ D. Thomas Ferraro

D. Thomas Ferraro
United States Magistrate Judge

379 U.S. 29

Walter C. BRULOTTE et al., Petitioner

v.

THYS COMPANY.

No. 20.

Argued Oct. 20, 1964.
Decided Nov. 16, 1964.

Rehearing Denied Jan. 18, 1965.
See 379 U.S. 985, 85 S.Ct. 638.

Edward S. Irons, Washington, D.C., for petitioners.

Elwood Hutcheson, Yakima, Wash., for respondent.

Mr. Justice DOUGLAS delivered the opinion of the Court.

Respondent, owner of various patents for hop-picking, sold a machine to each of the petitioners for a flat sum[1] and issued a license for its use. Under that license there is payable a minimum royalty of $500 for each hop-picking season or $3.33 1/3 per 200 pounds of dried hops harvested by the machine, whichever is greater. The licenses by their terms may not be assigned nor may the machines be removed from Yakima County. The licenses issued to petitioners

---

[1] One petitioner paid $3,125 for "title" to a machine, the other petitioner, $3,300.

listed 12 patents relating to hop-picking machines;[2] but only seven were incorporated into the machines sold to and licensed for use by petitioners. Of those seven all expired on or before 1957. But the licenses issued by respondent to them[3] continued for terms beyond that date.

Petitioners refused to make royalty payments accruing both before and after the expiration of the patents. This suit followed. One defense was misuse of the patents through extension of the license agreements beyond the expiration date of the patents. The trial court rendered judgment for respondent and the Supreme Court of Washington affirmed. 62 Wash. 2d 284, 382 P. 2d 271. The case is here on a writ of certiorari. 376 U.S. 905, 84 S.Ct. 666, 11 L.E.2d 605.

We conclude that the judgment below must be reversed insofar as it allows royalties to be collected which accrued after the last of the patents incorporated into the machines had expired.

The Constitution by Art. I, § 8 authorizes Congress to secure "for limited times" to inventors "the exclusive right" to their discoveries. Congress exercised

---

[2] All but one of the 12 expired prior to the expiration of the license agreements. The exception was a patent whose mechanism was not incorporated in these machines.

[3] Petitioners purchased their machines from prior purchasers under transfer agreements to which respondent was a party.

that power by 35 U.S.C. § 154 which provides in part as follows:

> "Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. . . ."

The right to make, the right to sell, and the right to use "may be granted or conferred separately by the patentee." *Adams v. Burke*, 17 Wall. 453, 456, 21 L.Ed. 700. But these rights become public property once the 17-year period expires. *See Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185, 16 S.Ct. 1002, 1008, 41 L.Ed. 118; *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 118, 59 S.Ct. 109, 113, 83 L.Ed. 73. As stated by Chief Justice Stone, speaking for the Court in *Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249, 256, 66 S.Ct. 101, 104, 90 L.Ed. 47:

> " . any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws."

The Supreme Court of Washington held that in the present case the period during which royalties were required was only "a reasonable amount of time over which to spread the payments for the use of the

patent." 62 Wash. 2d, at 291, 382 P. 2d, at 275. But there is intrinsic evidence that the agreements were not designed with that limited view. As we have seen,[4] the purchase price in each case was a flat sum, the annual payments not being part of the purchase price but royalties for use of the machine during that year. The royalty payments due for the post-expiration period are by their terms for use during that period, and are not deferred payments for use during the pre-expiration period. Nor is the case like the hypothetical ones put to us where non-patented articles are marketed at prices based on use. The machines in issue here were patented articles and the royalties exacted were the same for the post-expiration period as they were for the period of the patent. That is peculiarly significant in this case in view of other provisions of the license agreements. The license agreements prevent assignment of the machines or their removal from Yakima County *after*, as well as before, the expiration of the patents.

Those restrictions are apt and pertinent to protection of the patent monopoly; and their applicability to the post-expiration period is a telltale sign that the licensor was using the licenses to project its monopoly beyond the patent period. They forcefully negate the suggestion that we have here a bare arrangement for a sale or a lease at an undetermined price based on use. The sale or lease of *unpatented* machines on

---

[4] Note 1, *supra*.

long-term payments based on a deferred purchase price or on use would present wholly different considerations. Those arrangements seldom rise to the level of a federal question. But patents are in the federal domain; and "whatever the legal device employed" (*Scott Paper Co. v. Marcalus Mfg. Co., supra*, 326 U.S., at 256, 66 S.Ct., at 104) a projection of the patent monopoly after the patent expires is not enforceable. The present licenses draw no line between the term of the patent and the post-expiration period. The same provisions as respects both use and royalties are applicable to each. The contracts are, therefore, on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period. We are, therefore, unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage.

In light of those considerations, we conclude that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*. If that device were available to patentees, the free market visualized for the post-expiration period would be subject to monopoly influences that have no proper place there.

Automatic Radio Co. v. Hazeltine, 339 U.S. 827, 70 S.Ct. 894, 94 L.Ed. 1312, is not in point. While some of the patents under that license apparently

had expired, the royalties claimed were not for a period when all of them had expired.[5] That license covered several hundred patents and the royalty was based on the licensee's sales, even when no patents were used. The Court held that the computation of royalty payments by that formula was a convenient and reasonable device. We decline the invitation to extend it so as to project the patent monopoly beyond the 17-year period.

A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones. *See Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 60 S.Ct. 618; *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 664-665, 64 S.Ct. 268, 270, 88 L.Ed. 376, and cases cited. The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when, as we have seen, the patent has entered the

---

[5] The petition for certiorari did not in the questions presented raise the question of the effect of the expiration of any of the patents on the royalty agreement. Also, the Hazeltine license, which covered many patents, exacted royalties for patents never used. But that aspect of the case is likewise not opposite here for the present licensees are farmers using the machines, not manufacturers buying the right to incorporate patents into their manufactured products.

public domain. We share the views of the Court of Appeals in *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 3 Cir. 302 F.2d 496, 510, that after expiration of the last of the patents incorporated in the machines "the grant of patent monopoly was spent" and that an attempt to project it into another term by continuation of the licensing agreement is unenforceable.

Reversed.

Mr. Justice HARLAN, dissenting.

The Court holds that the Thys Company unlawfully misused its patent monopoly by contracting with purchasers of its patented machines for royalty payments based on use beyond the patent term. I think that more discriminating analysis than the Court has seen fit to give this case produces a different result.

The patent laws prohibit post-expiration restrictions on the use of patented ideas; they have no bearing on use restrictions upon nonpatented, tangible machines. We have before us a mixed case involving the sale of a tangible machine which incorporates an intangible, patented idea. My effort in what follows is to separate out these two notions, to show that

there is no substantial restriction on the use of the Thys *idea*, and to demonstrate that what slight restriction there may be is less objectionable than other post-expiration use restrictions which are clearly acceptable.

I.

It surely cannot be questioned that Thys could have lawfully set a fixed price for its machine and extended credit terms beyond the patent period. It is equally unquestionable, I take it, that if Thys had had no patent or if its patent had expired, it could have sold its machines at a flexible, undetermined price based on use; for example, a phonograph record manufacturer could sell a recording of a song in the public domain to a juke-box owner for an undetermined consideration based on the number of times the record was played.

Conversely it should be equally clear that if Thys licensed another manufacturer to produce hop-picking machines incorporating any of the Thys patents, royalties could not be exacted beyond the patent term. Such royalties would restrict the manufacturer's exploitation of the *idea* after it falls into the public domain, and no such restriction should be valid. To give another example unconnected with a tangible machine, a song writer could charge a royalty every time his song—his idea—was sung for profit during the period of copyright. But once the song falls into the public domain each and every member of the public should be free to sing it.

In fact Thys sells both a machine and the use of an idea. The company should be free to restrict the use of its machine, as in the first two examples given above. It may not restrict the use of its patented idea once it has fallen into the public domain. Whether it has done so must be the point of inquiry.

Consider the situation as of the day the patent monopoly ends. Any manufacturer is completely free to produce Thys-type hop-pickers. The farmer who has previously purchased a Thys machine is free to buy and use any other kind of machine whether or not it incorporates the Thys idea, or make one himself if he is able. Of course, he is not entitled as against Thys to the *free* use of any Thys machine. The Court's opinion must therefore ultimately rest on the proposition that the purchasing farmer is restricted in using his particular machine, embodying as it does an application of the patented idea, by the fact that royalties are tied directly to use.

To test this proposition I again put a hypothetical. Assume that a Thys contract called for neither an initial flat-sum payment nor any annual minimum royalties; Thys' sole recompense for giving up ownership of its machine was a royalty payment extending beyond the patent term based on use, without any requirement either to use the machine or not to use a competitor's. A moment's thought reveals that, despite the clear restriction on use both before and after the expiration of the patent term, the arrangement

would involve no misuse of patent leverage.[1] Unless the Court's opinion rests on technicalities of contract draftsmanship and not on the economic substance of the transaction, the distinction between the hypothetical and the actual case lies only in the cumulative investment consisting of the initial and minimum payments independent of use, which the purchaser obligated himself to make to Thys. I fail to see why this distinguishing feature should be critical. If anything the investment will encourage the purchaser to use his machine in order to amortize the machine's fixed cost over as large a production base as possible. Yet the gravamen of the majority opinion is restriction, not encouragement, of use.

II.

The essence of the majority opinion may lie in some notion that "patent leverage" being used by Thys to exact use payments extending beyond the patent term somehow allows Thys to extract more onerous payments from the farmers than would otherwise be obtainable. If this be the case, the Court must in some way distinguish long-term use payments from long-term installment payments of a flat-sum purchase price. For the danger which it seems to fear would appear to inhere equally in both, and as I

---

[1] Installment of a patented, coin-operated washing machine in the basement of an apartment building without charge except that the landlord and his tenants must deposit 25 cents for every use, should not constitute patent misuse.

read the Court's opinion, the latter type of arrangement is lawful despite the fact that failure to pay an installment under a conditional sales contract would permit the seller to recapture the machine, thus terminating—not merely restricting—the farmer's use of it. Furthermore, since the judgments against petitioners were based almost entirely on defaults in paying the $500 minimums and not on failures to pay for above-minimum use,[2] any such distinction of extended use payments and extended installments, even if accepted, would not justify eradicating all petitioners' obligations beyond the patent term, but only those based on use above the stated minimums; for the minimums by themselves, being payable whether or not a machine has been used, are precisely identical in substantive economic effect to flat installments.

In fact a distinction should not be accepted based on the assumption that Thys, which exploits its patents by selling its patented machines rather than licensing others to manufacture them, can use its patent leverage to exact more onerous payments from farmers by gearing price to use instead of charging a flat sum. Four possible situations must be considered. The purchasing farmer could overestimate, exactly estimate, underestimate, or have no firm

---

[2] Petitioner Charvet was indebted to Thys only to the extent of the minimums; petitioner Brulotte was in default approximately $4,500 of which $3,120 was attributable to minimums.

estimate of his use requirements for a Thys machine. If he overestimates or exactly estimates, the farmer will be fully aware of what the machine will cost him in the long run, and it is unrealistic to suppose that in such circumstances he would be willing to pay more to have the machine on use than on straight terms. If the farmer underestimates, the thought may be that Thys will take advantage of him; but surely the farmer is in a better position than Thys or anyone else to estimate his own requirements and is hardly in need of the Court's protection in this respect. If the farmer has no fixed estimate of his use requirements he may have good business reasons entirely unconnected with "patent leverage" for wanting payments tied to use, and may indeed be willing to pay more in the long run to obtain such an arrangement. One final example should illustrate my point:

At the time when the Thys patent term still has a few years to run, a farmer who has been picking his hops by hand comes into the Thys retail outlet to inquire about the mechanical pickers. The salesman concludes his description of the advantages of the Thys machine with the price tag—$20,000. Value to the farmer depends completely on the use he will derive from the machine; he is willing to obligate himself on long credit terms to pay $10,000, but unless the machine can substantially outpick his old hand-picking methods, it is worth no more to him. He therefore offers to pay $2,000 down, $400 annually for 20 years, and an additional payment during the contract term for any production he can derive from

the machine over and above the minimum amount he could pick by hand. Thys accepts, and by doing so, according to the majority, commits a *per se* misuse of its patent. I cannot believe that this is good law.[3]

III.

The possibility remains that the Court is basing its decision on the technical framing of the contract and would have treated the case differently if title had been declared to pass at the termination instead of the outset of the contract term, or if the use payments had been verbally disassociated from the patent licenses and described as a convenient means of spreading out payments for the machine. If indeed the impact of the opinion is that Thys must redraft its contracts to achieve the same economic results, the decision is not only wrong, but conspicuously ineffectual.

I would affirm.

---

[3] The Court also adverts to the provisions in the license agreements prohibiting "assignment of the machines or their removal from Yakima County" (*ante*, p. 179) during the terms of the agreements. Such provisions, however, are surely appropriate to secure performance of what are in effect conditional sales agreements and they do not advance the argument for patent misuse.

Furthermore, it should not be overlooked that we are dealing here with a patent, not an antitrust, case, there being no basis in the record for concluding that Thys' arrangements with its licensees were such as to run afoul of the antitrust laws.

OPPOSITION BRIEF

SUPREME COURT, U.S.
FILED
APR 23 2014
OFFICE OF THE CLERK

No. 13-720

IN THE

Supreme Court of the United States

STEPHEN KIMBLE, *et al.*,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF IN OPPOSITION

SETH P. WAXMAN
Counsel of Record
PAUL R.Q. WOLFSON
MATTHEW GUARNIERI
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com

QUESTION PRESENTED

Whether this Court should overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), a statutory precedent that Congress has left unchanged for half a century even while modifying other patent misuse doctrines.

CORPORATE DISCLOSURE STATEMENT

Respondent, Marvel Entertainment, LLC ("Marvel") is a successor by merger to Marvel Entertainment, Inc., which was formerly known as Marvel Enterprises, Inc. Marvel is wholly owned by The Walt Disney Company, the shares of which are publicly traded. No publicly held corporation owns 10% or more of the stock of The Walt Disney Company.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

CORPORATE DISCLOSURE STATEMENT ii

TABLE OF AUTHORITIES iv

STATEMENT 1

A. Prior Litigation And Settlement 1

B. Proceedings Below 3

ARGUMENT 6

I. *BRULOTTE* IS A NARROW RULE THAT PREVENTS A FORM OF PATENT MISUSE WHILE GENERALLY ALLOWING PARTIES TO CONTRACT FREELY 8

II. PETITIONERS' CRITICISMS OF *BRULOTTE* ARE OVERSTATED AND DO NOT WARRANT OVERRULING FIFTY YEARS OF SETTLED PATENT MISUSE LAW 12

A. *Brulotte* Already Provides Much Of The Flexibility In Timing That Petitioners Seek 12

B. *Brulotte*'s Concerns About Patent Misuse Cannot Be Dismissed And Are Independent Of Antitrust Concepts 15

III. PETITIONERS FAIL TO JUSTIFY DEPARTING FROM *STARE DECISIS* 20

CONCLUSION 24

TABLE OF AUTHORITIES

CASES

Page(s)

Arizona v. *Rumsey*, 467 U.S. 203 (1984) 20

Aronson v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979) 10, 11

Broggild v. *Kenner Products*, 776 F.2d 1315 (6th Cir. 1985) 11

Brulotte v. *Thys Co.*, 379 U.S. 29 (1964) ..... *passim*

Hilton v. *South Carolina Public Railways Commission*, 502 U.S. 197 (1991) 22

Illinois Tool Works, Inc. v. *Independent Ink, Inc.*, 547 U.S. 28 (2006) 22

James v. *United States*, 366 U.S. 213 (1961) 24

Kewanee Oil Co. v. *Bicron Corp.*, 416 U.S. 470 (1974) 19

Leegin Creative Leather Products, Inc. v. *PSKS, Inc.*, 551 U.S. 877 (2007) 22

Marvel Entertainment LLC v. *Kimble*, 533 F. App'x 749 (9th Cir. 2013) 6

Meehan v. *PPG Industries, Inc.*, 802 F.2d 881 (7th Cir. 1986) 11

Payne v. *Tennessee*, 501 U.S. 808 (1991) 20

Pfaff v. *Wells Electronics, Inc.*, 525 U.S. 55 (1998) 18

Pitney Bowes, Inc. v. *Mestre*, 701 F.2d 1365 (11th Cir. 1983) 11

Scheiber v. *Dolby Laboratories, Inc.*, 293 F.3d 1014 (7th Cir. 2002) 15

TABLE OF AUTHORITIES—Continued

Page(s)

Scott Paper Co. v. *Marcalus Manufacturing Co.*, 326 U.S. 249 (1945) 8

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964) 19

Square D Co. v. *Niagara Frontier Tariff Bureau, Inc.*, 476 U.S. 409 (1986) 24

State Oil Co. v. *Khan*, 522 U.S. 3 (1997) 22

Swift & Co. v. *Wickham*, 382 U.S. 111 (1965) 21

Thys Co. v. *Brulotte*, 382 P.2d 271 (Wash. 1963) 9

Zenith Radio Corp. v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969) 9

STATUTES

35 U.S.C.
§ 154 ..... 8, 22
§ 271 22

Patent Misuse Reform Act, Pub. L. No. 100-703, 102 Stat. 4674 (1988) 7, 22

Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) 24

LEGISLATIVE MATERIALS

Intellectual Property Antitrust Protection Act of 1987: Hearing on S. 438 Before the Subcommittee on Technology and the Law of the Senate Committee on the Judiciary, 100th Cong. (1987) 23

TABLE OF AUTHORITIES—Continued

Page(s)

Patent Licensing Reform Act of 1988: Hearing on H.R. 4068 Before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Committee on the Judiciary, 100th Cong. (1988) 18, 23

134 Cong. Rec. 30,688 (1988) 23

134 Cong. Rec. 32,295 (1988) 23, 24

134 Cong. Rec. 32,296 (1988) 24

H.R. 4070, 99th Cong. (1986) 23

H.R. 4808, 99th Cong. (1986) 23

H.R. 557, 100th Cong. (1987) 23

H.R. 401, 105th Cong. (1997) 24

S. 2525, 99th Cong. (1986) 23

S. 2944, 99th Cong. (1986) 23

S. 635, 100th Cong. (1987) 23

DOCKETED CASES

Kimble v. *Toy Biz, Inc.*, No. 97-CV-557 (D. Ariz.) 2

OTHER AUTHORITIES

ABA Section of Antitrust Law, *Intellectual Property and Antitrust Handbook* (2007) 12

ABA Section of Antitrust Law, *Intellectual Property Misuse* (2000) 10, 11

TABLE OF AUTHORITIES—Continued

Page(s)

Altman, Louis, *Is There an Afterlife?*, 64 J. Pat. Off. Soc'y 297 (1982) 13, 14, 18, 19

10 Areeda, Philip E. & Herbert Hovenkamp, *Antitrust Law* (3d ed. 2011 & Supp. 2013) 15

Ayres, Ian & Paul Klemperer, *Limiting Patentees' Market Power Without Reducing Innovation Incentives*, 97 Mich. L. Rev. 985 (1999) 13

Baxter, William, *Legal Restrictions on Exploitation of the Patent Monopoly*, 76 Yale L.J. 267 (1966) 14

Comment, *Validity of Patent License Provisions Requiring Payment of Post-Expiration Royalties*, 65 Colum. L. Rev. 1256 (1965) 16

Cotter, Thomas F., *Misuse*, 44 Hous. L. Rev. 901 (2007) 12

DOJ & FTC, *Antitrust Enforcement and Intellectual Property Rights* (2007) 10, 13, 16, 17

1 Dratler, Jay, *Licensing of Intellectual Property* (1994 & Supp. 2014) 17, 20, 21

1 Einhorn, Harold & Eric E. Bensen, *Patent Licensing Transactions* (rev. 2013) 21

2 Epstein, David, *Eckstrom's Licensing in Foreign and Domestic Operations* (rev. 2013) 10

TABLE OF AUTHORITIES—Continued

Page(s)

1 Epstein, Michael A. & Frank L. Politano, *Drafting License Agreements* (4th ed. 2002 & Supp. 2013) 12

Feldman, Robin, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003) 17, 18, 19

Gilbert, Richard, & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property*, in *Brookings Papers: Microeconomics* 283 (1997) 14

2 Holmes, William C., *Intellectual Property and Antitrust Law* (rev. 2013) 9

1 Hovenkamp, Herbert, et al., *IP and Antitrust* (2d ed. 2009 & Supp. 2013) 6, 12, 14, 18

Jager, Melvin F., *Licensing Law Handbook* (2013-2014 ed.) 21

Landes, William M., & Richard A. Posner, *The Economic Structure of Intellectual Property Law* (2003) 19

Lim, Daryl, *Patent Misuse and Antitrust Law* (2013) 9, 10, 17

Merges, Robert P., *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793 (1988) 19, 20

3 Milgrim, Roger M. & Eric E. Bensen, *Milgrim on Licensing* (rev. 2013) 11, 14, 16

TABLE OF AUTHORITIES—Continued

Page(s)

Royalty Agreements Projecting Beyond Expiration of Patent, 79 Harv. L. Rev. 199 (1965) 14

2 Schlicher, John W., *Patent Law, Legal and Economic Principles* (2d ed. 2003 & Supp. 2011) 12

See, Harold & Frank M. Caprio, *The Trouble with* Brulotte, 1990 Utah L. Rev. 813..... 16

IN THE

Supreme Court of the United States

No. 13-720

STEPHEN KIMBLE, *et al.*,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF IN OPPOSITION

STATEMENT

A. Prior Litigation And Settlement

Stephen Kimble is the named inventor on U.S. Patent No. 5,072,856, which was drawn to a glove "for shooting foam from the palm of a hand to give the impression that a spider web is being formed." '856 Patent, col. 2, ll. 32-34. The invention allowed a child to role-play as Marvel's iconic superhero character, Spider-Man. Pet. 7-8; Pet. App. 3. The '856 patent expired no later than May 25, 2010. Pet. App. 49.

In 1997, Kimble sued Toy Biz, Inc. (now part of Marvel) for infringement of the '856 patent in the manufacture and sale of the Web Blaster, "a role play toy

whose primary play value is to allow the user to adopt aspects of Marvel's Spider-Man character by shooting foam string." Pet. App. 49; *see Kimble* v. *Toy Biz, Inc.*, No. 97-CV-557 (D. Ariz.). Kimble also brought a breach of contract claim, alleging that the president of Toy Biz had orally agreed at a December 1990 meeting to compensate Kimble if the company used his invention or related toy ideas. Pet. App. 49. Kimble's application for the '856 patent was pending at the time of the alleged oral agreement.

The district court granted summary judgment to Marvel on Kimble's patent infringement claim. Pet. App. 49-50. The contract claim was tried to a jury, which found for Kimble and awarded him a percentage of royalties on "net product sales" of the Web Blaster. *Id.* 50. Marvel then sought judgment as a matter of law or a new trial, arguing in part that Kimble had failed to establish the elements of a contract or had shown, at most, an unenforceable agreement to agree. After those motions were denied, Marvel noticed an appeal from the judgment, and Kimble noticed a cross-appeal from the district court's adverse ruling on his patent infringement claim.

The parties settled the litigation in 2001, before any appellate briefing on the merits. Pet. App. 50. Under the settlement agreement, "the Patent Holders agree[d] to sell to Marvel the Patent." *Id.*[1] In exchange, Marvel agreed to pay "the Patent Holders" $516,214.62, plus

---

[1] Robert Grabb—who represented Kimble in the 1997 litigation—had acquired an interest in the '856 patent and was a party to the settlement agreement, which referred to Kimble and Grabb collectively as "the Patent Holders." Pet. App. 50 & n.3. Grabb joined Kimble as a plaintiff in the subsequent suit against Marvel and is also a petitioner, along with Kimble, in this Court.

> 3% of "net product sales" ... made after December 21, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action[.]

Id. 51 (quoting agreement). The parties withdrew their cross-appeals after settling, and the district court vacated its judgment. *Id.* 50.

The settlement agreement contains no express end date for the 3% payments on net product sales. Petitioners were paid more than $6 million in royalties during the term of the '856 patent. Pet. App. 7.

B. Proceedings Below

Petitioners brought the present suit in 2008, alleging a breach of the settlement agreement. Pet. App. 47. In particular, petitioners claimed that Marvel had failed to pay royalties due on "subsequent iterations of the Web Blaster that included additional functions" other than simply shooting foam string, as well as "Web Blasters that were packaged with other role play items (such as Spider-Man masks)." *Id.* 7; *see also id.* 67-70 (explaining royalty dispute). Petitioners alleged that both types of products came within Marvel's royalty obligation because their manufacture and sale "would infringe the Patent." *Id.* 8.

In its answer, Marvel denied that those products were covered by the royalty obligation. In addition, Marvel counterclaimed for a declaratory judgment that, under *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), its royalty obligations would become unenforceable when the

'856 patent expired. Pet. App. 47. That decision, as explained further below, holds that a contractual obligation to pay royalties for use of a patented invention after the patent expires is presumed to be the result of the patentee having improperly leveraged its patent beyond the patent term, and is therefore unenforceable after the patent expires.

Petitioners then reversed course. Although they had alleged in both the 1997 litigation and the present suit that the Web Blaster infringed the '856 patent, petitioners sought to distinguish *Brulotte* on the theory that the Web Blaster and its variants were in fact *not* infringing products. Pet. App. 56-57. In petitioners' revised view, the settlement agreement distinguished between infringing products and (by implication) non-infringing Web Blasters, because it provided for royalties on sales of products that "would infringe the Patent ... *as well as* sales of the Web Blaster." Petitioners argued that the Web Blaster payments were not for use of the '856 patent but rather for Marvel's use of unpatented ideas or know-how that Kimble allegedly disclosed at the December 1990 meeting. They further contended that such payments could run past the expiration the '856 patent without violating *Brulotte*, which does not apply to unpatented intellectual property. *See id.* 35, 57.

A magistrate judge recommended that Marvel's motion for summary judgment on its counterclaim be granted (Pet. App. 53-60), and the district court agreed (*id.* 34-37). The district court assumed that an agreement to pay royalties for the use of both patented and non-patented intellectual property may extend beyond the expiration of the patent without violating *Brulotte*, but stressed that that will be true only if there is a discernible "distinction between the royalties" for the two

kinds of rights, such as a lower royalty rate in the post-expiration period. *Id.* 35; *see also id.* 58-59 (magistrate's report and recommendation). The district court found no such distinction in the settlement agreement. *Id.* 37. Thus, the court held that "the royalty provision is unenforceable after the expiration of the Kimble patent." *Id.*

The court of appeals affirmed. Pet. App. 1-26. The court articulated the rule set forth by *Brulotte* and later decisions as follows:

> [A] license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate. This is because—in the absence of a discount or other clear indication that the license was in no way subject to patent leverage—we presume that the post-expiration royalty payments are for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*.

Id. 18. Applying these "bright line rules" (*id.* 16), the court found that the settlement agreement "did not include a discounted rate" post-expiration or any "other clear indication that the [post-expiration] royalty was in no way subject to patent leverage" (*id.* 20, 21). Thus, "*Brulotte*'s presumption must apply." *Id.* 23.[2]

---

[2] The agreement in this case was not a license but rather an assignment—a sale—of the '856 patent to settle the 1997 litigation. Pet. App. 19. Petitioners have never argued (including in their petition) that that distinction is material to the application of *Brulotte*, and so any such argument is waived. Moreover,

While noting that *Brulotte* has been criticized and that its application "arguably deprive[d] Kimble of part of the benefit of his bargain" (Pet. App. 23-25), the court observed that the parties could easily have structured their agreement to comply with *Brulotte*, had they considered it (*id.* 21 & n.5).[3] Further, although petitioners claimed that the rationale of *Brulotte* was inapplicable here because their negotiating leverage lay in alleged non-patent rights, the court found no "clear indication" in the settlement agreement itself that the royalty rate upon which the parties agreed for the post-expiration period was free of "patent leverage." *Id.* 21-22.

On the same day that the court of appeals affirmed the decision below in this case, it ordered further proceedings in related litigation in which Kimble is claiming a breach of the alleged December 1990 oral agreement. *See Marvel Entm't LLC* v. *Kimble*, 533 F. App'x 749, 750 (9th Cir. 2013). That litigation is ongoing.

ARGUMENT

Petitioners identify no compelling reason why this Court should reconsider *Brulotte*, a narrow statutory decision that Congress has declined to modify for half a century. *Brulotte* prohibits only a single licensing prac-

---

Brulotte's rule against leveraging patent rights does not depend on whether the patentee is offering a license or an assignment; in either case, the licensee (or assignee) is being required to pay to use an invention after it enters the public domain. *But see* 1 Hovenkamp et al., *IP and Antitrust* § 23.2e (2d ed. 2009 & Supp. 2013) (contrary view).

[3] Although there has been no factfinding concerning the negotiations of the settlement agreement, petitioners have represented that they were unaware of *Brulotte* at that time. *See* Pet. 9. Marvel informed the court of appeals at oral argument that it did not take account of *Brulotte* during the negotiations of the settlement agreement. *See* Pet. App. 7.

tice: extracting royalties for the post-expiration use of an invention, after it has entered the public domain. The decision does not prohibit licenses in which payments for pre-expiration use of an invention are postponed until after the patent expires. Thus, it permits the vast majority of beneficial licensing practices that depend on the flexibility to spread costs over time.

Petitioners' criticism that the decision relies on an outdated presumption that a patent confers market power is misplaced. Like many patent misuse doctrines, *Brulotte* is aimed, rather, at ensuring that the patentholder receives compensation only for the rights granted by that patent, and not for other rights or knowledge outside the patent's scope. The core bargain at the heart of the patent system is that an inventor must publicly disclose an invention, in return for a limited period of exclusivity in which to reap the rewards of innovation. *Brulotte*'s conclusion that permitting post-expiration royalties would upset this bargain is justified and is independent of antitrust principles.

In any event, the question for the Court is not whether *Brulotte* might be questioned but whether it should be overruled. Petitioners fail to offer any special justification for setting aside the principle of *stare decisis*. *Brulotte* has provided a workable bright-line rule that has informed countless intellectual property licensing negotiations. It is also firmly within Congress's power to change. That consideration is especially relevant here because Congress rejected proposals to modify *Brulotte* after hearing arguments for and against the decision before enacting the Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, 102 Stat. 4674, 4676 (1988). Congress has since declined to modify *Brulotte* despite other major reforms to patent law. The petition should therefore be denied.

I. *Brulotte* Is A Narrow Rule That Prevents A Form Of Patent Misuse While Generally Allowing Parties To Contract Freely

1. *Brulotte*'s reach is limited. The decision prohibits only a specific form of patent misuse, in which the patentee requires a licensee to pay "for use of [the invention] ... in the post-expiration period," after "the patent has entered the public domain" and should be free to all. *Brulotte* v. *Thys Co.*, 379 U.S. 29, 33 (1964).

The license at issue in *Brulotte* itself required licensees to pay a royalty for their use of a patented hop-picking machine ("$3.33 1/3 per 200 pounds of dried hops harvested"), subject to an annual minimum. 379 U.S. at 29. The licensees' royalties continued to "accrue[] after the last of the patents incorporated into the machines had expired." *Id.* at 30. *Brulotte* held that the agreement to pay patent royalties for use of the machine even after it was no longer covered by any patent was unenforceable "insofar as" it required such royalties. *Id.*

Brulotte was premised on the "the policy and purpose of the patent laws," and in particular the fundamental requirement, reflected in the Patent Act, 35 U.S.C. § 154, that patents last for limited times (at the time of the decision, seventeen years). 379 U.S. at 30-31. After that limited term of exclusivity has run, the patented invention "become[s] public property" to be used freely for further innovation, *id.* at 31, and "[t]he rights in the invention are ... no longer subject to private barter, sale, or waiver," *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 256-257 (1945). If a patentee could use the "device" of requiring royalties for post-expiration use as a condition of licensing its patent, the "free market visualized for the post-expiration period" could be threatened. *Brulotte*, 379 U.S. at 32.

Petitioners characterize *Brulotte* as mistakenly reasoning that "post-expiration patent *royalties* somehow extend the patent *right*," which they claim is "fundamentally in error." Pet. 17. But that was not the rationale for the decision. To the contrary, *Brulotte* was squarely concerned about an attempt to extend the patent *right* into the post-expiration period; the patentee had secured payments for post-expiration *use* of its invention even though it no longer had a patent. *See* 379 U.S. at 32 (patentee made "a bald attempt to exact the same terms and conditions for the periods after the patents have expired as ... for the monopoly period"); *id.* at 31-32 (suspicion of patent misuse confirmed by other licensing conditions patentee imposed, such as "prevent[ing] assignment of the machines or their removal from Yakima County *after*, as well as before, the expiration of the patents").

2. *Brulotte* tempered its concern about patent misuse with a "sensitivity toward ... the need to allow parties to contract freely." Lim, *Patent Misuse and Antitrust Law* 107 (2013); *see also* 2 Holmes, *Intellectual Property and Antitrust Law* § 24.3 (rev. 2013). One limitation to the decision is particularly relevant: *Brulotte* "[r]ecogniz[ed] that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that payment of this royalty could be *postponed beyond that time*." *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969) (emphasis added).

Indeed, whether the royalties in *Brulotte* were for pre- or post-expiration use of the relevant patents was a central dispute in the case. The Supreme Court of Washington had concluded that the royalties were enforceable as deferred payments for pre-expiration use of the patent. *See Thys Co.* v. *Brulotte*, 382 P.2d 271,

275 (Wash. 1963) (licenses contemplated "a reasonable amount of time over which to spread the payments for use of the patent"). Justice Harlan, in dissent, agreed with that reading of the licenses. *See Brulotte*, 379 U.S. at 34 (Harlan, J., dissenting) (post-expiration payments were akin to "extend[ing] credit terms" to licensees to pay for the patented machine over a period of years beyond the patent term); *id.* at 39 (post-expiration royalties were "a convenient means of spreading out payments"). The *Brulotte* majority, however, rejected that reading, stressing that the royalties "due for the post-expiration period are by their terms *for use during that period*, and are not deferred payments for use during the pre-expiration period." *Id.* at 31 (emphasis added). Had the royalties not been for use during the post-expiration period, they would not have been unlawful.

Brulotte thus "reaches only agreements in which royalties actually *accrue* on post-expiration use." DOJ & FTC, *Antitrust Enforcement and Intellectual Property Rights* 117 (2007) ("*2007 DOJ/FTC Report*"); *see also, e.g.*, ABA Section of Antitrust Law, *Intellectual Property Misuse* 51, 81 (2000) ("ABA, *IP Misuse*"); 2 Epstein, *Eckstrom's Licensing in Foreign and Domestic Operations* § 8E:14 (rev. 2014); Lim, *supra*, at 107. What is important for *Brulotte* is when the obligation to pay royalties is incurred, not when the royalties are paid.

3. *Brulotte*'s narrow scope was confirmed in *Aronson* v. *Quick Point Pencil Co.*, which held that *Brulotte* was not offended by an agreement, negotiated while a patent application was pending, to pay one royalty rate if the patent issued or a second, lower rate indefinitely if the patent did not issue. 440 U.S. 257, 259-260, 264-265 (1979). The Court in *Aronson* concluded that the parties had dispelled any inference of patent misuse or improper leverage by "specifically

provid[ing] for a reduced royalty in the event no patent issued" and thus making clear that patent rights "played no part in the contract to pay the [lower] royalty indefinitely." *Id.* at 265.

Aronson teaches that the parties to a license may agree simultaneously on patent royalties and non-patent royalties without triggering *Brulotte*'s patent misuse concerns, as long as they distinguish between the two. Although *Aronson* involved a royalty to be paid if no patent issued, its principle has been extended to the common modern practice of "hybrid" licensing—licenses involving patents and other intellectual property, such as trade secrets. *See* 3 Milgrim & Bensen, *Milgrim on Licensing* § 18.07 & n.19 (rev. 2013); ABA, *IP Misuse* 82. The parties to a hybrid license may agree on patent royalties and royalties for the use of other intellectual property after the patent expires, as long as they "distinguish between rates of payment for pre-expiration and post-expiration periods or between royalties attributable to the patent rights and those for any other rights." *Broggild* v. *Kenner Prods.*, 776 F.2d 1315, 1319 (6th Cir. 1985), *cert. denied*, 477 U.S. 908 (1986); *see also Meehan* v. *PPG Indus., Inc.*, 802 F.2d 881, 886 (7th Cir. 1986), *cert. denied*, 479 U.S. 1091 (1987); *Pitney Bowes, Inc.* v. *Mestre*, 701 F.2d 1365, 1372-1373 (11th Cir.), *cert. denied*, 464 U.S. 893 (1983).

Brulotte and *Aronson* together offer a clear and flexible framework: A license agreement may not extend the obligation to pay royalties for the *use* of a patented invention in the post-expiration period, but the parties may make deferred-payment arrangements for pre-expiration use, and they may also enter into "hybrid" licensing arrangements extending into the post-expiration period that cover use of both patented and unpatented intellectual property, as long as they dis-

tinguish between the two. As explained further below, that framework is sound, and petitioners provide no basis for overturning it after so many years.

II. Petitioners' Criticisms Of *Brulotte* Are Overstated And Do Not Warrant Overruling Fifty Years Of Settled Patent Misuse Law

A. *Brulotte* Already Provides Much Of The Flexibility In Timing That Petitioners Seek

Many of petitioners' criticisms of *Brulotte* rest on the premise that the decision limits the duration of royalty payments to the life of the patent, thereby preventing pro-competitive licensing practices. *See* Pet. 22-27. That premise is mistaken.[4] As explained above, *Brulotte* permits post-expiration payments for pre-expiration use of an invention. *See supra* p. 10 (collecting citations); *see also, e.g.*, ABA Section of Antitrust Law, *Intellectual Property and Antitrust Handbook* 496 (2007) (patent misuse doctrine "does not prohibit intellectual property owners from allowing licensees to satisfy payment obligations on a deferred schedule that extends beyond the life of the patent"); 1 Epstein & Politano, *Drafting License Agreements* § 7.07[C] (4th

---

[4] The same misreading of *Brulotte* is reflected in some of the academic commentary on which petitioners rely. *See, e.g.*, 1 Hovenkamp et al., *IP and Antitrust* § 23.2b (2d ed. 2009 & Supp. 2013) ("*Brulotte*'s per se rule limits the ability of patentees to amortize royalty payments over longer periods than the remaining life of the patent, even when such an arrangement is in the interest of the licensee."); 2 Schlicher, *Patent Law, Legal and Economic Principles* § 11:27 (2d ed. 2003 & Supp. 2011) (criticizing *Brulotte* for preventing parties from "spreading royalties over a longer period" than the patent term, which "helps the licensee defer costs"); Cotter, *Misuse*, 44 Hous. L. Rev. 901, 939 n.169 (2007) ("In the wake of *Brulotte*, parties should structure their transactions so that all royalties attributable to the patent are paid before the end of the term.").

ed. 2002 & Supp. 2013) ("Extension of the payout period ... would not be an attempt to extend the monopoly power of the patent."); Altman, *Is There an Afterlife?*, 64 J. Pat. Off. Soc'y 297, 302-303 (1982) ("no court can find fault" with "pay-out period extend[ing] beyond the life of the patent" when "the royalty is being paid only for use of the invention *during* the patent term"). And *Aronson* permits payments for the use of other intellectual property in a hybrid agreement after a licensed patent expires, as long as the parties distinguish the two.

Because *Brulotte* already provides "the flexibility to stretch out payments over a longer period" of time (Pet. 26), the vast majority of pro-competitive benefits cited by petitioners are already available through deferral or amortization of payments for *pre-expiration use* of a patented invention. *E.g.*, Pet. 23 (lower royalties over a longer term may "reduce[] the deadweight loss associated with a patent monopoly" (quoting *2007 DOJ/FTC Report* 12)); *see also, e.g.*, Ayres & Klemperer, *Limiting Patentees' Market Power Without Reducing Innovation Incentives*, 97 Mich. L. Rev. 985, 1027 (1999) (patent results in "supra-competitive pricing" and patentee and licensee "have a joint interest in spreading [this] distortion evenly across time"). Nothing in *Brulotte* prohibits parties from negotiating for lower payments spread out over longer terms, provided those payments reflect the use of the patent during its life, before the invention enters the public domain.

Brulotte's distinction between (permitted) deferred payment of royalties for use of an invention during the patent term and (prohibited) patent royalties for post-expiration use is well grounded. "Royalties affect [the licensee's] marginal cost, and hence output and prices" only during the period in which they accrue, after which "any remaining obligation is a fixed cost" with no

marginal effect on the licensee's decisionmaking. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly*, 76 Yale L.J. 267, 328 (1966). Thus, allowing a patentee to demand royalties on a licensee's post-expiration use would affect the licensee's prices or outputs in "the free market visualized for the post-expiration period," *Brulotte*, 379 U.S. at 32, in a way that deferred payments do not. Furthermore, royalties for post-expiration use "can no longer be said to be related to the success which the licensed product enjoyed *only* during the term of the patent" and are "related to some extent *also* to the success which the licensed product enjoyed after expiration," which "offends the statutory policy" of free public access to an invention after the patent term. Altman, 64 J. Pat. Off. Soc'y at 312; *see also infra* pp. 17-19.

In sum, *Brulotte* permits the vast majority of commercially useful licensing activity. Parties need only make clear that the license is intended to capture the pre-expiration value of using the patent, even if payments are spread past the patent's expiration. Indeed, even some *Brulotte* critics recognize that parties generally can "structure their licenses" to comply with its *per se* rule. Gilbert & Shapiro, *Antitrust Issues in the Licensing of Intellectual Property*, in *Brookings Papers: Microeconomics* 283, 322 (1997); 1 Hovenkamp et al., *IP and Antitrust* § 23.2b (2d ed. 2009 & Supp. 2013) (many problems "can be avoided by careful drafting"); 3 Milgrim & Bensen § 18.05 (similar); *cf. Royalty Agreements Projecting Beyond Expiration of Patent*, 79 Harv. L. Rev. 199, 201 (1965) (noting "limited effect" of *per se* rule given "alternatives available"). There is therefore no substance to petitioners' exaggerated claim that the decision is causing "significant damage to the American economy." Pet. 5.

B. *Brulotte*'s Concerns About Patent Misuse Cannot Be Dismissed And Are Independent Of Antitrust Concepts

Brulotte's prohibition on royalties for the post-expiration use of an invention is not grounded on outdated antitrust principles related to market power or fear of market tying. Instead, *Brulotte* rests on a justified concern that agreements for post-expiration royalties contravene the purposes and policies underlying the limited term of a patent. *Brulotte* is part of a broader body of patent misuse law designed to protect against abuse of the limited rights granted under the patent system. Patent misuse law serves different purposes than antitrust law and addresses concerns independent of it.

1. In their broadest attack on *Brulotte*, petitioners suggest that *any* policy concerns about post-expiration royalties are misplaced because such royalties "reflect solely the anticipated value of the authorization to use the patented invention prior to patent expiration." Pet. 17. Stated differently, petitioners contend that no one would agree to pay for what is free, so no licensee would agree to pay to use a patent after it expires. On this view, although "the patentee may appear to extract an unauthorized fee for post-expiration use" of its patent, "*this appearance is an illusion*" and in reality the licensee is paying only for pre-expiration use. *Id.* 18 (quoting 10 Areeda & Hovenkamp, *Antitrust Law* ¶1782c.3 (3d ed. 2011 & Supp. 2013)); *see also id.* 18-19 (quoting *Scheiber* v. *Dolby Labs., Inc.*, 293 F.3d 1014, 1017-1018 (7th Cir. 2002) (Posner, J.), *cert. denied*, 537 U.S. 1109 (2003)).

There is no reason to think that is always or even generally true. The fact that a licensee is aware that it

will be able to practice the invention for free upon expiration does not prevent the patentee from exercising patent leverage during *pre-expiration* negotiations, which are the subject of *Brulotte*'s concern. In many cases, the licensee may be unable or unwilling to wait until after the end of the patent term. *See, e.g.*, Comment, *Validity of Patent License Provisions Requiring Payment of Post-Expiration Royalties*, 65 Colum. L. Rev. 1256, 1269 (1965) (licensee may be "influenced by the immediate economic circumstances of a competitive market" into accepting onerous post-expiration royalties); 3 Milgrim & Bensen § 18.05 (parties may trade post-expiration royalties against the value of "securing a marketing foothold" by commercializing a patent before its expiration). Of course, it is true that "[o]nce a patent expires," it can be used by the public "for no charge," *2007 DOJ/FTC Report* 118 n.18, and "the patentee *at that time* has nothing else to sell," See & Caprio, *The Trouble with* Brulotte, 1990 Utah L. Rev. 813, 851 (emphasis added). But the licensing negotiations that *Brulotte* targets unfold before expiration, when the patentee can still misuse its patent rights to secure future advantages.

2. Petitioners stress the claims of law professors and antitrust enforcement authorities that post-expiration royalties can sometimes be efficient without lessening competition. *E.g.*, Pet. 13-14, 22-23, 33-34. Those claims are largely overstated because *Brulotte* already permits deferred payments for pre-expiration use, and it is the ability to spread payments over time that is chiefly cited as pro-competitive. *See supra* pp. 12-14. In any event, any potentially pro-competitive effects for the narrow category of licensing agreements *Brulotte* actually forbids—*i.e.*, royalties accruing on the use of an inven-

tion after it enters the public domain—are outweighed by countervailing patent policy concerns.

Fundamentally, it is *patent* policy, not antitrust law, that animated *Brulotte*. The decision was not and is not an antitrust case. It creates an equitable defense against enforcement of a license requiring royalties for the post-expiration use of an invention, but it does not hold that post-expiration royalty requirements are a basis for antitrust liability.[5] Like other patent misuse doctrines, *Brulotte* "provides no basis for an affirmative legal action against an owner of intellectual property." 1 Dratler, *Licensing of Intellectual Property* § 5.04 (1994 & Supp. 2014). "[U]nlike an antitrust claim, patent misuse is a shield, not a sword." *Id.* § 5.04[2].

Beyond these practical differences, "[a]ntitrust law is designed to address only particular types of harm, and it cannot reach everything that patent policy addresses." Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 400 (2003); *see also* Lim, *supra*, at 26-27 (patent misuse doctrine "has additional concerns that antitrust does not capture, or at least that it does not capture very effectively," including "protection of the public domain, even if non-monopolistic").

> [S]ince the inception of misuse doctrine, courts have treated extension of a patent grant—by lengthening its duration, by bundling it with

---

[5] Conversely, the fact that the DOJ and FTC analyze agreements requiring post-expiration royalties under the rule of reason *for antitrust enforcement purposes* does not mean that those agencies necessarily "disagree[] with *Brulotte*" as an equitable defense. Pet. 16. The DOJ/FTC Report announcing this enforcement policy does not call for *Brulotte* to be overruled. *See 2007 DOJ/FTC Report* 116-118.

> some other unpatented product, or by some other means—as an evil to be avoided regardless of a demonstrable effect on competition.... Patent policy permits the grant of exclusive rights only under certain conditions and only within a limited scope, and the expansion of that scope through coercive use of a government-granted legal right has been thought to undermine the limitations built into patent law.

1 Hovenkamp § 3.2d; *see also Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 Before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the H. Comm. on the Judiciary*, 100th Cong. 169 (1988) ("*Patent Licensing Reform Hearing*") (statement of Prof. Robert Merges) (patent misuse doctrine "grew out of the structure of the patent laws ... [and] the necessity of carrying out the policies underlying the patent laws," and "only secondly does it address ... competitive behavior").

Brulotte serves these policies by furthering the statutory aim of "limiting the time of a patent grant"; those policies are distinct from antitrust concepts. *See* Feldman, 55 Hastings L.J. at 445-446; *see also Brulotte*, 379 U.S. at 30-31 (relying principally on "limited times" requirement); Altman, 64 J. Pat. Off. Soc'y at 309 (royalties for post-expiration use "offend[] those provisions in the patent statute and the Constitution which require use of the invention to be free after a certain period of time").

The "carefully crafted bargain" at the heart of the patent system is the public disclosure of an invention in exchange for "an exclusive monopoly *for a limited period of time*" to reward and encourage such innovation. *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998) (em-

phasis added). "[W]hen the patent expires ... the right to make the article ... passes to the public," *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230 (1964), as "an addition[] to the general store of knowledge," *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 481 (1974).

Allowing a patentee to require royalties on post-expiration use of an invention "threatens the overall balances" struck in this bargain by "[l]eaving open the time for determining and capturing the value of [the] invention." Feldman, 55 Hastings L.J. at 445. Without *Brulotte*, patentees could attempt to "shift[] the patent system's current allocation of reward between those who participated in the early stage of inventions [to] those who participate in later stages of invention." *Id.*; *see also* Altman, 64 J. Pat. Off. Soc'y at 312 (patentee demanding post-expiration royalties is attempting to substitute "success which the licensed product enjoyed after expiration" for success "during the term of the patent"); Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 71 J. Pat. & Trademark Off. Soc'y 793, 803 (1988) ("Congress has determined that 17 years of exclusivity provides enough incentive to call forth inventive activity in the United States. Parties are simply not free to circumvent this through licensing agreements.").

Petitioners' approach, which would proceed solely under the antitrust rule of reason, would not adequately address these patent policy concerns. Pet. 30, 33-34. The market for many patented inventions is small or specialized. *See* Landes & Posner, *The Economic Structure of Intellectual Property Law* 374 (2003) (noting rarity of commercialization). For a given invention, the licensee "may well be dependent on one technology—that of the licensor." Merges, 71 J. Pat. & Trademark Off. Soc'y at 803. Agreements for post-expiration

royalties for such an invention may have "severe" effects on innovation and competition that are not well captured by the rule of reason. *See id.* at 802-803. It was presumably for this very reason that Congress rejected proposals to require proof that the antitrust laws had been violated as a prerequisite to any finding of patent misuse. *See infra* n.8.

III. PETITIONERS FAIL TO JUSTIFY DEPARTING FROM *STARE DECISIS*

Despite asking this Court to jettison a statutory precedent that has stood for nearly a half century, petitioners address *stare decisis* only as an afterthought. Pet. 35-38. But the principles of *stare decisis* must be the starting point for considering whether this Court should grant certiorari to overrule one of its own prior decisions. To depart from a rule of law that has been long settled requires some "special justification," not just that the existing rule might be questioned. *Arizona* v. *Rumsey*, 467 U.S. 203, 212 (1984). Petitioners fail to offer any persuasive special justification here. To the contrary, the principles of *stare decisis* strongly support retaining *Brulotte*, which Congress has declined to modify despite specific attention to it.

First, "[c]onsiderations in favor of *stare decisis* are at their acme in cases involving property ... rights, where reliance interests are involved." *Payne* v. *Tennessee*, 501 U.S. 808, 828 (1991). *Brulotte* meets that criterion: It is now the "legal linchpin" for an extensive body of patent licensing law and, in conjunction with *Aronson*, for hybrid licensing of both patent and other intellectual property rights. 1 Dratler § 4.04[5][d]. Although *Brulotte* restrains relatively few licensing practices (*supra* pp. 12-14), it has doubtless informed the negotiations for numerous past and current licens-

es. Petitioners would dismiss those existing agreements on the theory that overruling *Brulotte* would affect only licenses that are currently forbidden by it (and thus already unenforceable). Pet. 37-38. But numerous licensors and licensees who took account of *Brulotte* in their negotiations arrived at arrangements to comply with it—by, for example, structuring their licenses to provide for discounts after patent expiration, or making clear that deferred payment streams were for pre-expiration use of an invention.

Second, the force of *stare decisis* may be overcome if a decision has "proved to be unworkable in practice." *Swift & Co.* v. *Wickham*, 382 U.S. 111, 116 (1965). Here, petitioners do not even argue that *Brulotte* is unworkable or difficult to apply, which it is not. *See, e.g.*, Pet. App. 16 (court of appeals' recognition that *Brulotte* and *Aronson* have yielded "bright-line rules"). *Brulotte* is hardly an obscure "trap for the unwary," waiting to be sprung as "an instrument of injustice" against licensors. Pet. 31. It is discussed in virtually every modern licensing guide. *See, e.g.*, 1 Dratler § 4.04[5] ("axiomatic" *per se* rule); 1 Einhorn & Bensen, *Patent Licensing Transactions* § 3.07 (rev. 2013) ("abundantly clear" rule); Jager, *Licensing Law Handbook* § 3:5 (2013-2014 ed.) ("readily apparent" consideration for licensors). Although the parties to this case apparently did not take account of *Brulotte* when they executed the settlement agreement resolving their litigation by assigning the '856 patent, *see supra* n.3, there is no reason to believe that circumstance is common in standard licensing negotiations.

Third, "[c]onsiderations of *stare decisis* have special force in the area of statutory interpretation, for here, unlike in the context of constitutional interpretation, the legislative power is implicated, and Congress

remains free to alter what [this Court has] done." *Hilton* v. *South Carolina Pub. Rys. Comm'n*, 502 U.S. 197, 202 (1991). *Brulotte* is a statutory precedent, anchored to the limited term for patents set by Congress. *See* 379 U.S. at 30 (citing 35 U.S.C. § 154).[6] Congress has now had fifty years "in which it could have corrected [the] decision," and its "continued acceptance of [the Court's] earlier holding" is entitled to considerable weight. *Hilton*, 502 U.S. at 202.

Petitioners contend that *Brulotte* was undermined by congressional action in 1988. Pet. 6, 32. In fact, the contrary is true. The history of that legislation confirms *Brulotte*'s vitality and underscores that any changes to it are Congress's prerogative.

The 1988 legislation cited by petitioners, the Patent Misuse Reform Act, modified existing law to require a showing of market power before finding misuse when a patentee refuses to license its patent or when it requires a licensee to purchase another product or to license other patents. *See* Pub. L. No. 100-703, tit. II, § 201, 102 Stat. at 4676 (enacting 35 U.S.C. § 271(d)(4), (5)); *see also Illinois Tool Works, Inc.* v. *Independent Ink, Inc.*, 547 U.S. 28, 41-42 (2006) (discussing changes). That legislation, however, left *Brulotte* intact.

The 1988 reforms followed extensive congressional attention to patent licensing and misuse doctrine, spe-

---

[6] *Brulotte* is thus distinguishable from the trio of antitrust decisions petitioners cite to support "reconsideration of *per se* prohibitions." Pet. 36. Each of those decisions stressed that "the general presumption that legislative changes should be left to Congress has less force" in the antitrust context because the Sherman Act is largely an invitation for judge-made law. *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997); *accord Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 899 (2007); *Illinois Tool Works, Inc.* v. *Independent Ink, Inc.*, 547 U.S. 28, 42 n.3 (2006).

cifically including *Brulotte*. For example, a House subcommittee held a hearing in May 1988 on a proposed bill that would have eliminated the patent misuse defense whenever "the parties have mutually agreed to [post-expiration] payments after the issuance of the patent." *Patent Licensing Reform Hearing* 3-4 (text of H.R. 4086).[7] The hearing featured testimony both for and against *Brulotte*. *Compare id.* at 35 (prepared statement of Rene D. Tegtmeyer, Ass't Comm'r for Patents) (criticizing *Brulotte* as prohibiting "conduct [that] is not anticompetitive") *with id.* at 134-135 (prepared statement of Prof. Herbert Schwartz) (patentee's effort to "expand[] the temporal scope of his or her exclusivity beyond the fixed life of the patent ... is uncalled for regardless of whether his or her actions are pro-competitive or anti-competitive"). There was also evidence before Congress that *Brulotte* had not impeded beneficial licensing activity. *See id.* at 169 (statement of Prof. Robert Merges) ("patent licensing is alive and well").

After considered debate, Congress ultimately declined to modify *Brulotte*. It also rejected efforts to align patent misuse law more closely with antitrust law.[8] Congress has since declined similar proposals,

---

[7] Similar measures addressing patent misuse and antitrust implications for patent licensing had been considered several times before. *See, e.g.*, S. 2525, 99th Cong. (1986); S. 2944, 99th Cong. (1986); H.R. 4070, 99th Cong. (1986); H.R. 4808, 99th Cong. (1986); H.R. 557, 100th Cong. (1987); S. 635, 100th Cong. (1987); *see also Intellectual Property Antitrust Protection Act of 1987: Hearing on S. 438 before the Subcomm. on Technology and the Law of the S. Comm. on the Judiciary*, 100th Cong. (1987).

[8] *See* 134 Cong. Rec. 30,688-30,689 (1988) (Senator Leahy's proposed amendment to Patent Misuse Reform Act, H.R. 4972); *id.* at 32,295 (statement of Rep. Kastenmeier) (Leahy amendment

e.g., Intellectual Property Antitrust Protection Act of 1997, H.R. 401, 105th Cong. (1997), and has not altered *Brulotte* despite extensive other reforms to the patent system, *e.g.*, Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

This is therefore a case where considerations of *stare decisis* are at their apogee. *Brulotte* affects arrangements governing property rights on which countless parties have doubtless relied; it is a well-known and workable rule that causes little (if any) interference with desirable licensing practices; and it concerns an area of law to which Congress repeatedly directs its attention. *Stare decisis* must weigh heavily when "Congress [is] asked through the years to change the law ... but decline[s] to do so." *James* v. *United States*, 366 U.S. 213, 234 (1961); *see also Square D Co.* v. *Niagara Frontier Tariff Bureau, Inc.*, 476 U.S. 409, 424 (1986) (*stare decisis* demands that Court be "especially reluctant" to revisit a statutory precedent "in an area that has seen careful, intense, and sustained congressional attention"). Under those circumstances, "[i]f there is to be an overruling of the ... rule, it must come from Congress, rather than from this Court." *Square D Co.*, 476 U.S. at 424.

CONCLUSION

The petition for a writ of certiorari should be denied.

---

would have "require[d] that the court find a violation of the antitrust laws ... before it [could] find a patent holder guilty of misuse," but House rejected "such a sweeping and inflexible view"); *id.* (limited reforms actually adopted represent a "careful balance of ... interests"); *id.* at 32,296 (statement of Rep. Moorhead) (other proposed changes "remain controversial").

Respectfully submitted.

SETH P. WAXMAN
Counsel of Record
PAUL R.Q. WOLFSON
MATTHEW GUARNIERI
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com

APRIL 2014

REPLY BRIEF

RECORD
AND
BRIEFS

No. 13-720

Supreme Court, U.S.
FILED
MAY 12 2014
OFFICE OF THE CLERK

In The
Supreme Court of the United States

STEPHEN KIMBLE AND ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit

REPLY BRIEF FOR PETITIONERS

ANTONIO R. DURANDO
6902 N. Table
Mountain Road
Tucson, AZ 85718
(520) 243-3383

ROMAN MELNIK
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
TREVOR V. STOCKINGER
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN
& WEATHERWAX LLP
11400 W. Olympic Blvd.,
Ste. 400
Los Angeles, CA 90064
(310) 307-4500
melnik@glwllp.com

Counsel for Petitioners

May 2014

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

Library of Congress
Law Library

TABLE OF CONTENTS

Page

INTRODUCTION 1

ARGUMENT 4

I. *Brulotte* Harms The American Economy And Suppresses Innovation By Forbidding Licensing Practices That Would Provide Unique Procompetitive Benefits 4

II. Neither Concerns About Leverage Nor Patent Policy Justify A Blanket Prohibition On Collecting Patent Royalties Based On Post-Expiration Use 8

III. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte* 9

CONCLUSION 14

TABLE OF AUTHORITIES

Page

CASES

Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found., 402 U.S. 313 (1971) 13

Brulotte v. Thys Co., 379 U.S. 29 (1964) ..... *passim*

Illinois Tool Works, Inc. v. Independent Ink, Inc., 547 U.S. 28 (2006) 12

Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877 (2007) 11

Monell v. Dep't of Soc. Servs., 436 U.S. 658 (1978) 11

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917) 10

Patterson v. McLean Credit Union, 491 U.S. 164 (1989) 12

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014 (7th Cir. 2002) 3, 10

United States v. Reliable Transfer Co., 421 U.S. 397 (1975) 10

STATUTES

35 U.S.C. § 154 ..... 9, 10

TABLE OF AUTHORITIES – Continued

Page

LEGISLATIVE MATERIALS

Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Committee on the Judiciary, 100th Cong. (May 11, 1988) (available at http://babel.hathitrust.org/cgi/pt?id=pst.000014967702) 1, 12

BRIEFS

Brief for Respondent, *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), No. 04-1329 (Sept. 28, 2005) (available at http://www.americanbar.org/content/dam/aba/publishing/preview/publiced_preview_briefs_pdfs_05_06_04_1329_Respondent.authcheckdam.pdf) 13

OTHER AUTHORITIES

Altman, Louis, *Is There An Afterlife? The Effect of Patent or Copyright Expiration on License Agreements*, 64 J. Pat. Off. Soc'y 297 (1982) 2

Baxter, William F., *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 Yale L.J. 267 (1966) 3

Comment, *Validity of Patent License Provisions Requiring Payment of Post-Expiration Royalties*, 65 Colum. L. Rev. 1256 (1965) 3

TABLE OF AUTHORITIES – Continued

Page

Epstein, Michael A. & Frank L. Politano, *Drafting License Agreements* (4th ed. 2002 & Supp. 2013) 2

Feldman, Robin C., *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003) 3

Hovenkamp, Herbert, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* (2d ed. 2013) 10

Kieff, F. Scott, Pauline Newman, Herbert F. Schwartz & Henry E. Smith, *Principles of Patent Law: Cases and Materials* (5th ed. 2011) 3

Lim, Daryl, *Patent Misuse and Antitrust Law, Empirical, Doctrinal and Policy Perspectives* (2013) 2

Merges, Robert P., *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793 (1988) 2

INTRODUCTION

Marvel's brief in opposition does not dispute the existence of a wide-ranging, authoritative consensus that the judge-made rule announced in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) is fundamentally misguided and economically unsound, and that the rigid *per se* prohibition on collecting patent royalties based on post-expiration use should therefore be discarded in favor of a more flexible, case-by-case analysis. Pet. 12-16. Marvel similarly does not dispute that this case presents an ideal vehicle for reconsidering *Brulotte*. Pet. 35.

The premise underlying Marvel's opposition, instead, is that everyone but Marvel is wrong on the merits – that the authors of all of the leading treatises on the subject; ten judges of the courts of appeals (including such noted competition law authorities as Richard Posner and Frank Easterbrook); the staffs of the Antitrust Division of the Justice Department, the Federal Trade Commission, and the U.S. Patent and Trademark Office;[1] and the three groups of *amici*

---

[1] *See* Testimony of Rene D. Tegtmeyer, Assistant Commissioner of Patents in *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Committee on the Judiciary*, 100th Cong. at 30 & 35 (May 11, 1988) ("H.R. 4086 Hearing") (USPTO's position is that *Brulotte*'s "*per se* condemnation of royalty payments beyond the life of a patent" is "unsound" because this Court denounced such "conduct as economically contrary to public policy, even where that conduct

(Continued on following page)

supporting this petition (representing research institutions, IP practitioners, and prominent scholars in the field), have *all* misread *Brulotte*, misunderstood its doctrinal foundations, and misapprehended its impact on the American economy.

Merely to state this argument is to demonstrate its utter implausibility. Indeed, it speaks volumes that, even among the commentators Marvel has cited for the first time in its opposition, *not a single one* unequivocally supports retaining *Brulotte*'s rigid *per se* rule.[2]

---

is not anticompetitive") (available at http://babel.hathitrust.org/cgi/pt?id=pst.000014967702).

[2] *See, e.g.*, Daryl Lim, *Patent Misuse and Antitrust Law, Empirical, Doctrinal and Policy Perspectives*, 114-15 & 373 (2013) ("[T]he lingering presence of *Brulotte* does not necessarily validate its relevance or correctness in modern times *Brulotte* has fallen out of favor with courts more attuned to contemporary economic analysis. Most courts and commentators would disapprove of *Brulotte* today."); 1 Michael A. Epstein & Frank L. Politano, *Drafting License Agreements* §7.01 (4th ed. 2002 & Supp. 2013) ("The perception that patents are dangerous monopolies – the philosophical foundation for the *Brulotte* rule – is out of step with current judicial philosophy."); Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793, 802-03 (1988) (refusing to endorse *Brulotte*'s *per se* prohibition because "[s]ome practices that have been characterized as patent misuse when forced on a licensee have escaped this characterization when licensors can prove licensees assumed them voluntarily," and thus "legalizing *voluntary* extensions of [the] patent term" nevertheless "makes . . sense") (emphasis in original); Louis Altman, *Is There An Afterlife? The Effect of Patent or Copyright Expiration on License Agreements*, 64 J. Pat. Off. Soc'y 297, 310-12

(Continued on following page)

For the reasons discussed below, Marvel's defense of *Brulotte* readily is answered. But Marvel's substantive arguments are not merely off-base – they are beside the point. The question at the petition stage

---

(1982) (criticizing *Brulotte* for irrebuttably "assuming that patents *always* affect the bargaining relationship by their mere *presence*" so as to "taint an otherwise acceptable business deal") (emphases in original); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 417 (2003) (endorsing application of "a flexible test under equitable principles," rather than a *per se* rule, "when faced with behavior that appears to extend the physical or temporal scope of a patent grant"); William F. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 Yale L.J. 267, 328-29 (1966) (declining to sanction *per se* prohibition on patent royalties based on post-expiration use even while making controversial claim that such royalties should be prohibited in certain specific situations; *Brulotte*'s conclusion that "royalty computation after patent expiration extend[s] the monopolistic impact of the patent beyond its statutory term" is "inadequate," as "royalty rates generally will be lower and the degree of restriction on output less during the life of the patent under the longer royalty computation provision"); Comment, *Validity of Patent License Provisions Requiring Payment of Post-Expiration Royalties*, 65 Colum. L. Rev. 1256, 1269-71 (1965) ("[*Brulotte*'s] per se rule, in light of the harm sought to be redressed and the potential restraints upon common commercial practices, remains an inordinately severe judicial sanction. [The] patent holder should be given an opportunity to demonstrate that no unfair deployment of patent leverage was involved in drafting the agreement."); *compare also* Opp. at 23 (referencing single sentence supporting *Brulotte* in 1988 testimony of Prof. Herbert F. Schwartz) *with* F. Scott Kieff, Pauline Newman, Herbert F. Schwartz & Henry E. Smith, *Principles of Patent Law: Cases and Materials* 1173 (5th ed. 2011) (describing as "strong" Judge Posner's "criticism of [*Brulotte*'s] logic" in *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014 (7th Cir. 2002)).

is whether this Court should *consider* overruling *Brulotte*. In view of the broad expert consensus that *Brulotte* should be revisited, the answer to that question plainly is "yes." Marvel's defense of *Brulotte*, such as it is, is for this Court to weigh on the merits, not a reason to deny review. The petition should be granted.

ARGUMENT

I. *Brulotte* Harms The American Economy And Suppresses Innovation By Forbidding Licensing Practices That Would Provide Unique Procompetitive Benefits.

Marvel's lead argument against certiorari is that the adverse economic impact of *Brulotte*'s *per se* prohibition on accrual of patent royalties based on post-expiration use ("accrual postponement") is somehow negated because *Brulotte* permits postponing, into the post-expiration period, payment of patent royalties already accrued based on pre-expiration use ("payment postponement"). Opp. 8-14.

Marvel is wrong. As federal government agencies, courts of appeals, academic experts, and *amici* all have recognized, *Brulotte* damages the American economy and suppresses innovation precisely because

the licensing practices it forbids would provide unique procompetitive benefits. Pet. 22-30.[3]

First, simply postponing, into the post-expiration period, payment of patent royalties already accrued based on pre-expiration use does not allow parties to balance and allocate the risks of developing and commercializing new technology in the same way that permitting accrual of patent royalties directly based on post-expiration use does. Pet. 26 & n.12. Consider, for example, medical research commercialization. Academic and research institutions

> frequently grant licenses for early-stage technology that has not been fully developed and that is, as yet, of unknown or speculative commercial value. In such cases, their licensees face a particular risk that no viable product or process will be developed during

---

[3] *See also Brief Amici Curiae of Memorial Sloan-Kettering Cancer Center et al.* at 5-9 & 11-13 ("Memorial Sloan-Kettering *Amicus* Brief") (*Brulotte*'s "inflexible rule interferes with transactions that are beneficial to the licensor, the licensee, and the general public [and] prevents universities and small businesses (as well as large companies) from devising contractual arrangements that maximize the potential benefit of the universities' technological advancements"); *Brief Amici Curiae of Center for Intellectual Property Research of the Indiana University Maurer School of Law et al.* at 3, 4-6 ("Legal Scholars *Amicus* Brief") ("*Brulotte* hinders the innovation needed to make our economy vibrant" by discouraging "flexible licensing agreements needed for commercialization of inventions."); *Brief Amicus Curiae of The Intellectual Property Law Association of Chicago* at 7 ("*Brulotte* causes affirmative social harm.") (internal quotation marks omitted).

> the patent term. This risk is particularly acute with respect to pharmaceutical innovations, where development costs and failure rates are very high and many years of development, clinical trials, and regulatory review are required before the product ever reaches the commercial market.

Memorial Sloan-Kettering *Amicus* Brief at 12-13. In such situations, "the licensee may strongly prefer to defer a large share of license payments from the development phase (generally within the life of the patent), in favor of royalties on eventual sales that may begin toward the end of the patent term and extend for years thereafter." *Id.* at 6-7.

Forcing such parties to accrue patent royalties prior to patent expiration, but then allowing them to postpone payment of funds already owed, as Marvel suggests, Opp. 13, would do *nothing* to address the development and commercialization risk at issue. This scenario, which is not unique to medical research, *see, e.g.*, Legal Scholars *Amicus* Brief at 4-5, clearly shows how *Brulotte* suppresses innovation – a point that the Justice Department, the FTC, and numerous commentators and *amici* all have recognized, but Marvel ignores. Pet. 23-34 & n.10; *id.* at 26 & n.12; Memorial Sloan-Kettering *Amicus* Brief at 5 & 13.

Second, payment postponement, unlike accrual postponement, will not lower prices and raise output during the patent term. Pet. 27-28. The reason is straightforward – if the patent royalty base is

restricted to use during the patent term, then the royalty rate must be higher relative to the alternative where the patent royalty base includes use during the post-expiration period. This, too, is a point that the Justice Department, the FTC, and numerous commentators have recognized – but Marvel again ignores. *Id.*

Finally, payment postponement, unlike accrual postponement, also will not lower prices and increase competition *after* the end of the patent term. Pet. 28-29 & n.13. The reason is, again, straightforward – if the licensee must collect the entire patent royalty obligation prior to patent expiration, it cannot thereafter be undercut by new market entrants, as would have been the case had it been subject to ongoing patent royalties based on post-expiration use. *Id.* On this issue, as well, Marvel's brief is silent.[4]

---

[4] Marvel argues that *Brulotte*'s *per se* prohibition supposedly is "narrow" because it permits, in certain circumstances (though not in this case), collection of *non-patent* royalties for post-expiration use. Opp. 10-11 & 5. Marvel notably does not contend, however, that this in any way negates the adverse economic impact of the *per se* prohibition on post-expiration *patent* royalty accrual.

II. Neither Concerns About Leverage Nor Patent Policy Justify A Blanket Prohibition On Collecting Patent Royalties Based On Post-Expiration Use.

Marvel's defense of *Brulotte* next recycles the same mistaken contentions about patent leverage and patent policy that already have been comprehensively addressed – and refuted – in the Petition. *Compare* Opp. 15-20 *with* Pet. 17-22 & 30-35.

The short answer to Marvel's arguments is that not a single one of the commentators Marvel cites in this section of its brief actually supports retaining *Brulotte*'s rigid *per se* rule. *See* n.2, *supra*; *see also* Pet. 17-22 & 30-35.

The slightly longer answer is this:

Marvel first argues that, in licensing negotiations, a patent holder may sometimes coerce the licensee into accepting patent royalties based on post-expiration use. Opp. 15-16. Marvel does not explain, however, how this could possibly justify a *per se* prohibition on such royalties. *Brulotte* grounded its blanket ban in the now-outdated patent-equals-market-power presumption. Pet. 30-32. With this presumption abandoned, inquiry into the actual negotiations of the parties is a far more sensible way to probe for any allegedly wrongful leveraging. Pet. 33-34 & n.14 (citing authorities).

Marvel next asserts that the policy underlying limited patent terms supposedly justifies *Brulotte*'s

per se rule – regardless of how much damage that rule inflicts on the American economy. Opp. 16-19. But this argument rests on the now widely-discredited assumption in *Brulotte* that patent *royalties* on post-expiration use somehow extend the patent *right* into the post-expiration period. Pet. 17-22. And, again, tellingly, even the commentators whose work Marvel cites in support of this argument do not actually back retaining *Brulotte*'s rigid *per se* prohibition. *Compare* Opp. 19 *with* n.2, *supra*.

Marvel's final argument is that the antitrust rule of reason supposedly is an inadequate replacement for *Brulotte*'s *per se* bar because patent policy concerns must be taken into account. Opp. 19-20. But the question of precisely what factors should be considered in the case-by-case analysis that would replace *Brulotte*'s blanket prohibition is a matter for the merits. The key point at this stage is that Marvel has not demonstrated that any patent policy justifies retaining a r[illegible] *per se* rule.

III. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte*.

Finally, the doctrine of *stare decisis* also does not counsel against reconsideration of *Brulotte*.

1. Marvel argues that overturning *Brulotte* is a matter for Congress, not this Court, because *Brulotte* is a "statutory precedent." Opp. 21-22 & 24. Not so. Nowhere in its brief does Marvel actually quote 35 U.S.C. §154, the statutory provision it says the Court

was interpreting in *Brulotte*, or otherwise explain what *words* in that statute *Brulotte* is supposed to have construed. And with good reason. Section 154 says nothing about royalties, let alone the propriety of contracts providing for patent royalties based on post-expiration use. Pet. App. 74-75 (quoting section 154); *see also* 1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* §23.2a at 23-11 (2d ed. 2013) ("[T]he language of the Patent Act nowhere condemns such a contract."). Instead, courts and commentators agree that the rule of *Brulotte* is judge-made, "a free-floating product of a misplaced fear of monopoly," rather than an "interpretation of the patent statute or any other statute." *Scheiber*, 293 F.3d at 1018. In fact, Marvel, contradicting its own argument, candidly admits this elsewhere in its brief, asserting that "*Brulotte* was premised on the *policy and purpose* of the patent laws." Opp. 8 & 17 (emphasis added).

This Court has not, in similar circumstances, "hesitated to overrule an earlier decision and settle a matter of continuing concern, even though relief might have been obtained by legislation." *United States v. Reliable Transfer Co.*, 421 U.S. 397, 409 n.15 (1975); *see also Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917) (overruling judge-made patent misuse rule); Pet. 36 (citing cases). It should do so again here. Because *Brulotte* created a rule of federal common law, nothing compels

"plac[ing] on the shoulders of Congress the burden of the Court's own error." *Monell v. Dep't of Soc. Servs.*, 436 U.S. 658, 695 (1978) (internal quotation marks omitted).

2. Marvel also fails in its attempt to distinguish this Court's consistent teaching, in the closely-related antitrust context, that reconsideration of *per se* prohibitions particularly is warranted when – as here – the relevant government agencies and the academic literature, in light of intervening experience and analysis, come to the conclusion that application of a more nuanced, case-by-case approach is appropriate. *See, e.g., Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 900, 907 (2007); *see also* Pet. 36-37 (citing cases). Marvel says that these decisions do not apply because *Brulotte* is a "statutory precedent." Opp. 22 & n.6. Because, as just demonstrated, this premise is incorrect, Marvel's argument fails.

3. Marvel next contends that *Brulotte* should be retained because it articulates a "bright-line" rule. Opp. 21. If this were a sufficient basis for preserving poorly-reasoned decisions, no case announcing a *per se* prohibition – which is necessarily a bright-line rule – could ever be reconsidered. The fact that, on the contrary, this Court has, in recent years, consistently replaced *per se* prohibitions with rule of reason analysis, Pet. 36-37, fully answers Marvel's argument.

4. In yet another variation on its "Congress-knows-best" theme, Marvel argues that Congress has

somehow ratified *Brulotte* by considering in 1988, but not enacting, a proposed bill, H.R. 4086. Opp. 23. This argument fails for two reasons.

First, H.R. 4086 would not simply have replaced *Brulotte*'s rule of *per se* illegality with rule of reason analysis. It would, instead, have made post-expiration royalties for issued patents *per se legal*. *See* H.R. 4086 Hearing at 3-4 (text of proposed bill) (no patent misuse if "the parties have mutually agreed to such [post-expiration] payments after the issuance of the patent"). The fact that Congress did not enact this far-reaching proposal sheds no light on its views about the more measured step of replacing *Brulotte*'s *per se* prohibition with a flexible, case-by-case approach.[5]

Second, this Court, in any event, has warned against "the danger of placing undue reliance on the concept of congressional 'ratification,'" *Patterson v. McLean Credit Union*, 491 U.S. 164, 175 n.1 (1989), and repeatedly has reconsidered its own precedent notwithstanding Congressional inaction. Thus, for example, in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 41, 45-46 (2006), this Court overruled four prior decisions and rejected "the patent-equals-market-power presumption" in the antitrust tying context, notwithstanding respondent's argument

---

[5] The other proposed and enacted legislation cited by Marvel, Opp. 23-24 & nn. 7-8, is even less relevant, as it had nothing at all to do with post-expiration patent royalties.

in that case that Congress had considered, but failed to enact, such a change on several occasions. *See id.*, Brief for Respondent Independent Ink, Inc. at 34-35 & n.14 (enumerating six proposed but unenacted bills addressing the issue).[6] Similarly, in *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 320, 327 n.17, 339-42 (1971), this Court, in overruling a prior decision and rejecting the "judge-made doctrine" of mutuality of estoppel in patent litigation, refused to find Congressional ratification of the prior rule despite "the introduction of several bills" to effect relevant changes, congressional hearings on the issue, and an intervening reform of the patent statute. Congress' failure to act here similarly presents no bar to overruling *Brulotte*.

5. Finally, Marvel's assertion (Opp. 20-21) that overruling *Brulotte* would disrupt licenses that do *not* provide for patent royalties based on post-expiration use is demonstrably illogical. By hypothesis, lifting *Brulotte*'s *per se* prohibition cannot have any effect on agreements that do not run afoul of it. Indeed, as explained in detail in the Petition, discarding *Brulotte* would not implicate reliance concerns at all. Pet. 38-39.

---

[6] This brief is available at http://www.americanbar.org/content/dam/aba/publishing/preview/publiced_preview_briefs_pdfs_05_06_04_1329_Respondent.authcheckdam.pdf.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

ANTONIO R. DURANDO

ROMAN MELNIK*
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
TREVOR V. STOCKINGER
FLAVIO M. ROSE†
GOLDBERG, LOWENSTEIN
& WEATHERWAX LLP

*Also Lecturer in Law
USC GOULD SCHOOL OF LAW
699 Exposition Blvd.
Los Angeles, CA 90089

† Also Corporate IP Attorney
BANDGAP ENGINEERING, INC.
13 Garabedian Dr.
Salem, NH 03079

Counsel for Petitioners

May 2014

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
OCT 30 2014
OFFICE OF THE CLERK

No. 13-720

In the Supreme Court of the United States

STEPHEN KIMBLE, ET AL., PETITIONERS

v.

MARVEL ENTERPRISES, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

DONALD B. VERRILLI, JR.
Solicitor General
Counsel of Record
JOYCE R. BRANDA
Acting Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
CURTIS E. GANNON
Assistant to the Solicitor General
MARK R. FREEMAN
KATHERINE I. TWOMEY
Attorneys

Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217

QUESTION PRESENTED

Whether this Court should overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), which held that a license agreement requiring royalty payments for use of a patented invention after the expiration of the patent term is unlawful *per se*.

TABLE OF CONTENTS

Page

Statement 1
Discussion 7
A. Principles of *stare decisis* apply with special force to statutory-interpretation decisions such as *Brulotte* 8
B. Petitioners have not identified a special justification for overruling *Brulotte* 11
C. This case would be a poor vehicle for reexamining *Brulotte* because the contract at issue involved an outright sale of the underlying patent, not a royalty-bearing license 20
Conclusion 22

TABLE OF AUTHORITIES

Cases:

Aronson v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979) 3, 4, 19, 20
Bonito Boats, Inc. v. *Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) 1, 17
Brulotte v. *Thys Co.*, 379 U.S. 29 (1964) ..... *passim*
CBOCS West, Inc. v. *Humphries*, 553 U.S. 442 (2008) 9
Compco Corp. v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) 18
Continental T.V., Inc. v. *GTE Sylvania Inc.*, 433 U.S. 36 (1977) 13
Cutter v. *Wilkinson*, 544 U.S. 709 (2005) 21
Dickerson v. *United States*, 530 U.S. 428 (2000) 12
Edward Katzinger Co. v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947) 18
Global-Tech Appliances, Inc. v. *SEB S.A.*, 131 S. Ct. 2060 (2011) 8

Cases—Continued: Page

Halliburton Co. v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398 (2014) 7, 9, 12, 20
Illinois Tool Works Inc. v. *Independent Ink, Inc.*, 547 U.S. 28 (2006) 12, 13
Jefferson Parish Hosp. Dist. No. 2 v. *Hyde*, 466 U.S. 2 (1984) 13
John R. Sand & Gravel Co. v. *United States*, 552 U.S. 130 (2008) 8
Lear, Inc. v. *Adkins*, 395 U.S. 653 (1969) 18
Leegin Creative Leather Prods., Inc. v. *PSKS, Inc.*, 551 U.S. 877 (2007) 10, 13
Michigan v. *Bay Mills Indian Community*, 134 S. Ct. 2024 (2014) 8
Motion Picture Patents Co. v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917) 19
Nautilus, Inc. v. *Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014) 21
Patterson v. *McLean Credit Union*, 491 U.S. 164 (1989) 8
Pfaff v. *Wells Elecs., Inc.*, 525 U.S. 55 (1998) 1
Scheiber v. *Dolby Labs., Inc.*, 293 F.3d 1014 (7th Cir. 2002), cert. denied, 537 U.S. 1109 (2003) 6, 14
Scott Paper Co. v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1945) 9, 15, 16, 17
Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964) 2, 17
Singer Mfg. Co. v. *June Mfg. Co.*, 163 U.S. 169 (1896) 16
State Oil Co. v. *Khan*, 522 U.S. 3 (1997) 10, 13
Watson v. *United States*, 552 U.S. 74 (2007) 10
Zenith Radio Corp. v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969) 19

Cases—Continued: Page

Zila, Inc. v. *Tinnell*, 502 F.3d 1014 (9th Cir. 2007) 14, 15, 21

Constitution and statutes:

U.S. Const. Art. I, § 8, Cl. 8 ..... 1, 19
Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676 11
Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 10
Patent Act, 35 U.S.C. 1 *et seq.*:
35 U.S.C. 154 (1988) 2
35 U.S.C. 154 ..... 10, 15
35 U.S.C. 154(a)(2) 2
35 U.S.C. 154(b) 2
35 U.S.C. 156 2
35 U.S.C. 261 21
35 U.S.C. 271(a) 2
35 U.S.C. 271(d)(4) 11
35 U.S.C. 271(d)(5) 11, 13
Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532(a), 108 Stat. 4983-4985 10

Miscellaneous:

Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary, 100th Cong., 2d Sess. (1988) 11
S. 438, 100th Cong., 2d Sess. (1988) 11

Miscellaneous—Continued: Page

U.S. Dep't of Justice & Fed. Trade Comm'n:
Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (Apr. 2007), www.justice.gov/atr/public/hearings/ip/222655.pdf 14, 15
Antitrust Guidelines for the Licensing of Intellectual Property (Apr. 6, 1995), www.justice.gov/atr/public/guidelines/0558.pdf 14

In the Supreme Court of the United States

No. 13-720

STEPHEN KIMBLE, ET AL., PETITIONERS

v.

MARVEL ENTERPRISES, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

This brief is submitted in response to the Court's order inviting the Solicitor General to express the views of the United States. In the view of the United States, the petition for a writ of certiorari should be denied.

STATEMENT

1. a. The Constitution authorizes Congress to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Art. I, § 8, Cl. 8. The Patent Clause "reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989); see, *e.g.*, *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

Congress has accordingly established a patent system that grants a patentee certain exclusive rights in his invention for a limited term. "[W]hen the patent expires[,] the monopoly created by it expires, too, and the right to make the article * * * passes to the public." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230 (1964); see 35 U.S.C. 271(a) (providing that the unauthorized use of a patented invention constitutes patent infringement only "during the term of the patent therefor"). For more than a century before 1995, a patent remained in force for 17 years, measured from the date the patent was issued. 35 U.S.C. 154 (1988). Since 1995, the Patent Act has provided that a utility patent is effective "for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States" or (if the application claimed priority from an earlier, related application) 20 years "from the date on which the earliest such application was filed." 35 U.S.C. 154(a)(2). In some circumstances, the term may be extended to offset delays in the application process. 35 U.S.C. 154(b), 156.

b. In *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), this Court considered the effect of a royalty agreement that required payments for the "use" of a patented invention both before and after the patent term had expired. *Id.* at 29-30. The patent holder had sold a hop-picking machine and issued licenses for its use, but the licensees refused to make the royalty payments called for by the licenses. *Id.* at 30. When the patent holder filed suit to enforce the licenses, the licensees contended that the "extension of the license agreements beyond the expiration date of the patents" constituted patent misuse. *Ibid.*

This Court held that patent royalties could not be collected to the extent that those royalties "accrued after the last of the patents incorporated into the machines had expired." *Brulotte*, 379 U.S. at 30. The Court explained that Congress had authorized patents to be granted for a limited term of 17 years, "[b]ut these rights become public property once the 17-year period expires." *Id.* at 31. In the Court's view, any attempt to continue the patent monopoly beyond the expiration date, including through the collection of royalties for using the patented invention after that date, would "run[] counter to the policy and purpose of the patent laws" by conflicting with "the free market visualized for the post-expiration period." *Id.* at 31, 32 (citation omitted). The Court also stated that using the exclusive rights afforded by a patent as leverage to project royalty payments beyond the patent term "is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones." *Id.* at 33. The Court stated that agreements providing for post-expiration royalties are "unlawful *per se*." *Id.* at 32.

The lower court in *Brulotte* had viewed the licenses there as merely providing for deferred payment of royalties for pre-expiration use of the patented invention. 379 U.S. at 31. This Court described the "intrinsic evidence" in that case as indicating "that the agreements were not designed with that limited view." *Ibid.* Fifteen years later, however, the Court distinguished *Brulotte* when it considered an agreement that established one royalty rate (5%) if a patent issued within five years and a lower rate (2½%) if a patent did not issue. See *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 264-265 (1979). No patent was issued, and the

Court held that the lower royalty rate could be enforced because it did not reflect any attempt to obtain improper leverage from the patent monopoly. *Id.* at 265.

2. In May 1990, petitioner Stephen Kimble applied for a patent for his invention of a glove that allows its wearer to shoot pressurized foam string from the palm, mimicking a gesture of the comic-book hero Spider-Man. U.S. Patent No. 5,072,856; Pet. App. 3-4.[1] Later that year, Kimble discussed his then-pending patent application and other "ideas and know-how" with the president of respondent's corporate predecessor. *Id.* at 4. After the meeting, the company began manufacturing a similar toy called the "Web Blaster." *Ibid.*

In 1997, Kimble sued for patent infringement and for breach of contract on the basis of an alleged oral agreement to compensate him for any use by the company of his ideas. Pet. App. 5. The district court granted summary judgment to respondent on the patent-infringement claim, but a jury later found that respondent had breached a contractual promise to petitioner. *Ibid.* Both parties appealed. *Ibid.*

While the appeals were pending, the parties settled. Pet. App. 5. As part of the settlement, respondent agreed to purchase the patent in exchange for a lump-sum payment and a running royalty on respondent's future sales of the disputed product. *Id.* at 5-6. In relevant part, the settlement agreement provided that "[t]he purchase price for the Patent shall be payable to the Patent Holders as follows:"

---

[1] Robert Michael Grabb later acquired an interest in the patent (Pet. App. 3) and is also a petitioner in this Court.

a. $516,214.62 upon execution and delivery of this Agreement; and

b. 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

Id. at 6.

The patent expired on May 25, 2010. Pet. App. 4. The settlement agreement "has no expiration date," *id.* at 6, however, and the parties appear to construe that contract to require respondent to continue paying royalties for sales that occurred after the patent expired. The parties have represented that they were unaware of *Brulotte* when they negotiated the agreement. *Id.* at 7 n.3.

3. A dispute under the settlement agreement eventually arose, and petitioners filed a new suit alleging breach of contract. Pet. App. 7-8. Respondent successfully removed the suit to federal district court and filed a counterclaim seeking a declaratory judgment that it was not obligated to pay royalties for sales made after the patent's expiration. *Id.* at 8. In a report and recommendation, the magistrate judge agreed with respondent that, in light of *Brulotte*, petitioners are precluded from recovering royalties for post-expiration sales. *Id.* at 53-60.

The district court adopted the magistrate judge's report and recommendation. Pet. App. 41. The court held that *Brulotte* made the royalty provision "unen-

forceable after the [patent's] expiration." *Id.* at 37. In so holding, the court rejected petitioners' contention that the settlement agreement had created enforceable non-patent rights, explaining that the agreement had not drawn any distinction between the royalties for patent and non-patent rights. *Id.* at 34-37.

4. The court of appeals affirmed. Pet. App. 1-26. The court discussed this Court's decisions in *Brulotte* and *Aronson*. *Id.* at 10-18. It concluded that, taken together, those decisions establish that "a license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate." *Id.* at 18. Applying that principle, the court of appeals concluded that the settlement agreement here did not adequately distinguish between patent and non-patent rights. *Id.* at 18-23. Instead, "there was only one rate for all rights, and it was the same for both patent and Web Blaster rights." *Id.* at 21. The court noted that the parties could have structured their agreement to separate the patent and non-patent royalty streams (even if they had not provided for different rates), but that they had not done so. *Id.* at 20, 21 & n.5.

The court of appeals acknowledged that applying *Brulotte* to render part of the agreement unenforceable "arguably deprives Kimble of part of the benefit of his bargain based upon a technical detail that both parties regarded as insignificant at the time of the agreement." Pet. App. 23-24. The court also stated that the Seventh Circuit's criticism of *Brulotte* in *Scheiber* v. *Dolby Laboratories, Inc.*, 293 F.3d 1014, 1017 (2002), cert. denied, 537 U.S. 1109 (2003), was "particularly apt in

this case," because any "patent leverage * * * was vastly overshadowed by what were likely non-patent rights, and Kimble may have been able to obtain a higher royalty rate had the parties understood that the royalty payments would stop when the patent expired." Pet. App. 25. The court nevertheless concluded that it was "bound to follow *Brulotte* and [could not] deny that it applies here." *Id.* at 25-26.

DISCUSSION

Fifty years ago, this Court construed the Patent Act to prohibit a patent holder from contracting to extend its right to compensation for use of a patented invention beyond the limited patent term established by Congress. See *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964). Petitioners do not ask this Court to resolve any disagreements about *Brulotte*'s scope or application, but instead urge (Pet. i, 2, 12) the Court to grant certiorari for the sole purpose of overruling *Brulotte*. The Court does not lightly reverse settled interpretations of federal statutes, however, particularly where, as here, Congress has amended related aspects of a statutory scheme without disturbing this Court's longstanding construction. Petitioners' criticisms of *Brulotte* do not provide the "special justification" that this Court requires to overrule its own precedent. *Halliburton Co.* v. *Erica P John Fund, Inc.*, 134 S. Ct. 2398, 2407 (2014).

Petitioners' primary argument (Pet. 2-3, 12-35; Cert. Reply Br. 1) is that *Brulotte* reflects an obsolete understanding of antitrust principles related to monopoly power and therefore cannot be justified on economic grounds. But *Brulotte* is not, as petitioners suggest (Pet. 2), rooted solely or even primarily in principles of "competition law." Rather, it reflects the Court's in-

terpretation of the Patent Act and the policies of the federal patent laws, which the Court has long construed to promote the public's unfettered access to patented inventions after the expiration of the patent term. In any event, petitioners have not identified any serious practical harm that warrants overturning *Brulotte*, and this case would not provide a suitable vehicle for taking that extraordinary step. The petition for a writ of certiorari should be denied.

A. Principles Of *Stare Decisis* Apply With Special Force To Statutory-Interpretation Decisions Such As *Brulotte*

1. "[T]his Court does not overturn its precedents lightly," because *stare decisis* "promotes the even-handed, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process." *Michigan* v. *Bay Mills Indian Community*, 134 S. Ct. 2024, 2036 (2014) (citation omitted). "The Court has said often and with great emphasis that the doctrine of *stare decisis* is of fundamental importance to the rule of law." *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 172 (1989) (citation and internal quotation marks omitted).

The Court has repeatedly explained, moreover, that principles of *stare decisis* apply with "special force in the area of statutory interpretation," because such decisions implicate "the legislative power" and "Congress remains free to alter what [the Court has] done." *Patterson*, 491 U.S. at 172-173; accord, *e.g.*, *Halliburton*, 134 S. Ct. at 2411; *Bay Mills Indian Community*, 134 S. Ct. at 2036; *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2068 (2011); *John R. Sand & Gravel Co.* v. *United States*, 552 U.S. 130, 139 (2008). When the Court construes a federal statute, its inter-

pretation effectively becomes a part of the statutory scheme. Subsequent efforts to alter or repeal that interpretation therefore should generally be directed to Congress, not to the Court.

2. *Brulotte* reflects the Court's interpretation of the patent laws—specifically, of the legal effect of the expiration of the patent term established by the Patent Act. After observing that the Constitution grants Congress the power to "secure 'for limited times' to inventors 'the exclusive right' to their discoveries," the *Brulotte* Court explained that "Congress exercised that power by 35 U.S.C. § 154," which at that time provided for a patent term of 17 years. 379 U.S. at 30. The Court noted that the patentee may convey to others his exclusive rights in the patented invention, but it emphasized that those rights "become public property once the 17-year period expires." *Id.* at 31. The Court therefore concluded that "'whatever the legal device employed' a projection of the patent monopoly after the patent expires is not enforceable." *Id.* at 32 (quoting *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)).

Petitioners contend (Pet. 36; Cert. Reply Br. 9-10) that principles of *stare decisis* apply with reduced force here because *Brulotte* is not rooted in any specific statutory text. That fact does not vitiate the applicability of usual principles of statutory *stare decisis*. In *Halliburton*, for instance, the Court applied *stare decisis* to a presumption that it described as "a substantive doctrine of federal securities-fraud law," even though that presumption was "a judicially created doctrine designed to implement a judicially created cause of action." 134 S. Ct. at 2411 (citation omitted); see *CBOCS West, Inc.* v. *Humphries*, 553 U.S. 442, 452, 457

(2008) (applying *stare decisis* in concluding that a civil-rights statute included retaliation claims, even though the statutory text did not refer to those claims and the underlying construction derived from "an older case, where the Court placed less weight upon the textual language itself" than do more recent decisions).[2]

3. *Stare decisis* principles carry particular force here because *Brulotte* has survived repeated amendments to related provisions of the Patent Act over the last five decades.

Section 154 itself has been amended several times since *Brulotte* was decided—most significantly in 1994, when Congress changed the basic length of a patent term. See Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532(a), 108 Stat. 4983-4985; see also p. 2, *supra* (describing that change). More generally, Congress recently engaged in a widescale reexamination and revision of the patent laws, culminating in the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). Yet Congress has not displaced the Court's judgment in *Brulotte* that the patent laws reflect an affirmative policy of terminating a patentee's right to collect royalties for use of an invention after the expiration of the patent term. Such "long congressional acquiescence * * * enhance[s] even the usual precedential force" accorded to the Court's "interpretations of statutes." *Watson* v. *United States*, 552 U.S.

---

[2] As respondent notes (Br. in Opp. 22 n.6), antitrust decisions invoked by petitioners for the Court's willingness to overturn its established rules are distinguishable because "the Court has treated the Sherman Act as a common-law statute." *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 899 (2007); see *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997).

74, 82-83 (2007) (citation and internal quotation marks omitted).

Congress has specifically considered, but ultimately failed to enact, proposals that would have altered the *Brulotte* rule. In November 1988, Congress reformed the defense of patent misuse. See Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676 (adding 35 U.S.C. 271(d)(4) and (5)). Although petitioners portray (Pet. 32) that amendment as implicitly casting doubt on *Brulotte*'s soundness, other bills pending at the same time would have directly altered or overruled *Brulotte*'s holding. One bill that passed the Senate in October 1988 would effectively have adopted the rule that petitioners now urge by limiting patent misuse to "practices or actions or inactions" that "violate the antitrust laws." S. 438, 100th Cong., 2d Sess. § 201(3). Earlier that year, a House committee considered another bill that would have defined patent misuse in relevant part as "*unreasonably* entering into a royalty agreement that provides for payments *beyond the expiration of the term of a patent*, except when the parties have mutually agreed to such payments after the issuance of the patent." *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary*, 100th Cong., 2d Sess. 3-4 (May 11, 1988) (emphases added). Congress ultimately declined, however, to enact either of those proposals.

B. Petitioners Have Not Identified A Special Justification For Overruling *Brulotte*

"Before overturning a long-settled precedent," the Court "require[s] 'special justification,' not just an argument that the precedent was wrongly decided."

Halliburton, 134 S. Ct. at 2407 (quoting *Dickerson* v. *United States*, 530 U.S. 428, 443 (2000)). Petitioners primarily argue (Pet. 2-3, 12-35; Cert. Reply Br. 1) that *Brulotte* reflects a judge-made antitrust rule that is based on outdated economic analysis.[3] Their criticisms of the *Brulotte* rule have substantial force in the context of antitrust law. But *Brulotte* is not based solely, or even principally, on antitrust concerns. Indeed, petitioners identify no decision that has imposed antitrust *liability* on parties who enter into agreements of the sort at issue in *Brulotte*. Rather, *Brulotte* ultimately reflects the Court's interpretation of the Patent Act and the policies of the federal patent laws, which the Court has repeatedly viewed as precluding enforcement of legal or contractual provisions that would impair the public's access to formerly patented inventions after the relevant patents expire. Petitioners have not identified any special justification for repudiating *Brulotte* as an expression of that deep-rooted patent-law principle.

1. Petitioners—along with many of the commentators and lower-court decisions that they cite—have treated *Brulotte* as an antitrust rule animated solely by competition-law concerns. It is true that aspects of *Brulotte*'s reasoning reflect the type of economic analysis commonly used in antitrust cases. Compare *Brulotte*, 379 U.S. at 33 (analogizing license agreements extending beyond the patent term to "an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones"), with *Illinois Tool Works Inc.* v.

---

[3] See also Center for Intellectual Prop. Research Amicus Br. 6-15; Intellectual Prop. Law Ass'n of Chi. Amicus Br. 3-4; Memorial Sloan-Kettering Cancer Ctr. Amicus Br. 3-4.

Independent Ink, Inc., 547 U.S. 28, 31 (2006) (noting that the "presumption of market power, applicable in the antitrust context when a seller conditions its sale of a patented product (the 'tying' product) on the purchase of a second product (the 'tied' product), has its foundation in the judicially created patent misuse doctrine"). In addition, *Brulotte*'s statement that license agreements extending beyond the term of the patent are "unlawful *per se*" (379 U.S. at 32) evokes the language of antitrust law. See, *e.g.*, *Illinois Tool Works*, 547 U.S. at 40. Petitioners accordingly contend (Pet. 30) that *Brulotte* established an "irrebuttabl[e] presum[ption] that merely having a patent conferred market power and inherently allowed the licensor to exercise improper leverage over the licensee."

As petitioners explain (Pet. 30-34), such a presumption would have no place in modern antitrust law. When *Brulotte* was decided, a patent was presumed to give the patent holder market power. See, *e.g.*, *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 16 (1984) ("[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power."). But Congress subsequently eliminated that presumption in the context of patent misuse achieved through tying arrangements, 35 U.S.C. 271(d)(5), and for antitrust purposes the Court no longer presumes that patents create market power, see *Illinois Tool Works*, 547 U.S. at 45-46. More generally, antitrust law has in many respects shifted away from *per se* rules toward the rule of reason. See, *e.g.*, *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 886-887 (2007); *State Oil Co.* v. *Khan*, 522 U.S. 3, 17, 22 (1997); *Continental T.V.*,

Inc. v. *GTE Sylvania Inc.*, 433 U.S. 36, 57-59 (1977). As a result, federal agencies enforcing the antitrust laws generally analyze "restraints in intellectual property licensing arrangements" under "the rule of reason." U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 3.4, at 16 (Apr. 6, 1995), www.justice.gov/atr/public/guidelines/0558.pdf.

In fact, licensing arrangements that extend patent royalties beyond a patent term may sometimes be economically efficient. Such agreements "may permit licensees to pay lower royalty rates over a longer period of time, which reduces the deadweight loss associated with a patent monopoly and allows the patent holder to recover the full value of the patent, thereby preserving innovation incentives." U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 12 (Apr. 2007) (DOJ/FTC Report), www.justice.gov/atr/public/hearings/ip/222655.pdf. Such arrangements may also allow parties to overcome "incomplete contracting," which "occurs when imperfect contracting conditions prevent a licensor from negotiating a satisfactory royalty rate that reflects the patent's true value." *Id.* at 118-119. The Ninth and Seventh Circuits have criticized *Brulotte*'s purported economic justification on similar grounds. See Pet. App. 23-25 & n.7; *Zila, Inc.* v. *Tinnell*, 502 F.3d 1014, 1019-1020 (9th Cir. 2007); *Scheiber* v. *Dolby Labs., Inc.*, 293 F.3d 1014, 1017-1018 (7th Cir. 2002), cert. denied, 537 U.S. 1109 (2003); see also Pet. 19-21 & n.9 (noting similar criticisms from academics).[4]

---

[4] Apparently relying on the DOJ/FTC Report, petitioners assert that the Justice Department and the FTC "have called on this

2. Petitioners apparently believe that the *Brulotte* rule's unsuitability for use as a principle of antitrust law is a sufficient basis to overrule the decision. The *Brulotte* rule was never intended, however, and it has not been understood, to establish a rule of antitrust law. Petitioners cite no case in which the formation of an agreement like the one at issue in *Brulotte* has been treated as a *violation* of the antitrust laws. Rather, in this case as in *Brulotte* itself, the consequence of the rule is simply that an agreement to pay royalties for post-expiration use of a patented invention cannot be enforced in court. The rule is thus one of contract enforceability, not of antitrust liability.

Although some aspects of *Brulotte*'s analysis reflect antitrust-type reasoning, the Court ultimately framed its decision as an interpretation of the Patent Act and "the policy and purpose of the patent laws." 379 U.S. at 31 (quoting *Scott Paper*, 326 U.S. at 256). The Court explained that the patent laws contemplate that the invention disclosed in the patent will "become public property once the 17-year period [prescribed in 35 U.S.C. 154] expires." 379 U.S. at 31. In light of that "policy and purpose," the Court concluded that contracts for the payment of royalties after a patent ex-

---

Court to reconsider" *Brulotte*. Pet. 2; see Pet. 16. That is incorrect. The DOJ/FTC Report explains that, in conducting *antitrust* review of agreements like the one at issue in *Brulotte*, those agencies would generally apply the rule of reason rather than a *per se* rule. See DOJ/FTC Report 122. The Report also states that some agreements rendered unenforceable by *Brulotte* would likely have procompetitive effects. See *id.* at 12, 122. The Report expresses no view, however, about the soundness of the *Brulotte* rule as a matter of patent law, nor does it recommend that *Brulotte* be reconsidered or overruled by this Court.

pires are void because they invade "the free market visualized for the post-expiration period." *Id.* at 32-33.

Brulotte thus does not rest solely, or even predominantly, on assumptions about market power. Rather, it reflects an affirmative vision of the scope and purposes of the patent laws and of the legal effect of a patent term's expiration. Indeed, the *Brulotte* Court explicitly invoked a line of precedents that have stressed the importance of the public's right to practice an invention without limit once a patent expires. For example, the Court cited *Singer Manufacturing Co.* v. *June Manufacturing Co.*, 163 U.S. 169 (1896), which held that a state unfair-competition law was preempted by the patent laws. See *Brulotte*, 379 U.S. at 31. In *Singer*, the Court declared it "self evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property. It is upon this condition that the patent is granted." 163 U.S. at 185.

Similarly, the *Brulotte* Court relied on *Scott Paper* for the proposition that "any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws." 379 U.S. at 31 (quoting *Scott Paper*, 326 U.S. at 256). In *Scott Paper*, the Court held that the assignor of a patent was not estopped from defending a later infringement suit under the same patent on the ground that his product was a copy of an earlier, expired patent. 326 U.S. at 257-258. The Court emphasized that the patent system reflects a bargain ultimately designed for the public's benefit: "By the patent laws Congress has given to the inventor opportunity to secure the material rewards for

his invention for a limited time, on condition * * * that upon the expiration of the patent the public be left free to use the invention." *Id.* at 255. Of particular importance here, the Court explained that the anticipated public benefit when a patent expires is not merely the right "to manufacture the product or employ the process disclosed by the expired patent," but also the ability of the "consuming public at large" to "receive the benefits of the unrestricted exploitation, by others, of [the patent's] disclosures." *Ibid.* Accordingly, a manufacturer will not be permitted to "restrict himself, by express contract * * * from using the invention of an expired patent," because that "would deprive him[] and the consuming public of the advantage to be derived from his free use of the disclosures." *Id.* at 255-256.

When considered as an expression of patent policy, *Brulotte* fits comfortably within a line of precedents establishing that the federal patent laws are not indifferent to what happens when a patent's prescribed term expires. Rather, those laws reflect an affirmative congressional policy judgment that the patented invention should thereafter be freely available for exploitation by others and for enjoyment by the general public. In appropriate circumstances, that federal policy may preclude enforcement of a contractual or state-law restriction on manufacture or use of the formerly patented invention. As the Court explained in holding preempted a state law that prohibited the copying of unpatented designs, "after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public *as a matter of federal law*." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989) (emphasis added); see, *e.g.*, *Sears*,

Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225, 230 (1964) ("[W]hen the patent expires the monopoly created by it expires, too, and the right to make the article—including the right to make it in precisely the shape it carried when patented—passes to the public."); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964) ("To forbid copying would interfere with the federal policy, found in [the Patent Clause] and *in the implementing federal statutes*, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.") (emphasis added).

3. *Brulotte* and *Scott Paper* are not the only instances in which this Court has construed the patent laws to void contractual agreements that were freely negotiated between patent owners and consenting licensees. In *Edward Katzinger Co.* v. *Chicago Metallic Manufacturing Co.*, 329 U.S. 394 (1947), for example, the Court held that federal law precluded the enforcement of a "contract not to challenge the validity" of a patent. *Id.* at 400-402. The Court explained that, although the patent licensee had agreed to that condition, that agreement could not "override congressional policy." *Id.* at 402. Similarly in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), the Court held that a licensee was not required to continue paying royalties while challenging the validity of the underlying patent, notwithstanding the terms of the parties' license agreement. The Court emphasized that "enforcing th[e] contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain." *Id.* at 674.

Like the rule announced in *Brulotte*, those established principles of patent law may operate to invalidate contracts that, from the perspective of the con-

tracting parties, optimally allocate risk or otherwise vindicate the parties' bargain. And each, like the rule in *Brulotte*, may occasionally void agreements that both parties expected in good faith would be enforceable. As the Court observed in *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917), however, "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is 'to promote the progress of science and useful arts.'" *Id.* at 511 (quoting U.S. Const. Art. I, § 8, Cl. 8). Petitioners' economic critique of *Brulotte* does not provide a sufficient justification for overturning that settled rule of patent policy.

4. Petitioners also urge (Pet. 22-30) the Court to overrule *Brulotte* because of its harmful economic consequences. But the rule established by *Brulotte* is narrow and clear: An agreement to pay patent royalties for "use" of a patented invention after the patent expires is invalid. 379 U.S. at 31. *Brulotte* specifically distinguished that sort of contract term from the permissible practice of "deferred payments for use during the pre-expiration period." *Ibid.*

Subsequent decisions confirm the narrowness of *Brulotte*'s rule. In *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969), the Court described *Brulotte* as "[r]ecognizing that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time." *Id.* at 136. Later, in *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Court distinguished *Brulotte* and upheld an agreement, made while a patent application was pending, in which the applicant's counterparty agreed to pay a lower royalty if the patent was

not granted. *Id.* at 264-265. The Court explained that the lower royalty, "far from being negotiated 'with the leverage' of a patent, rested on the contingency that no patent would issue within five years." *Id.* at 265 (citation omitted).

Under *Brulotte*'s narrow ruling, private parties enjoy significant leeway in structuring license agreements to spread payments over a period longer than the patent term, and to contract for non-patent royalties. Indeed, the court below observed that the parties in this case could have written their agreement differently to achieve the same financial goals while avoiding *Brulotte*'s prohibition. See Pet. App. 21 n.5. The possibility that lower courts or contracting parties may sometimes misunderstand *Brulotte*'s narrow scope provides no sound basis for casting aside a 50-year-old interpretation of a federal statute. Nor do petitioners contend that the court of appeals misapplied *Brulotte* here. Rather, petitioners urge the Court to grant review for the sole purpose of overruling *Brulotte* outright. Nothing in petitioners' arguments so discredits that decision as to provide the "special justification" required for that extraordinary step. *Halliburton*, 134 S. Ct. at 2407 (citation omitted).

C. This Case Would Be A Poor Vehicle For Reexamining *Brulotte* Because The Contract At Issue Involved An Outright Sale Of The Underlying Patent, Not A Royalty-Bearing License

Brulotte involved a patent owner's attempt to impose license conditions extending beyond the term of the patent, thereby improperly extending the patentee's exclusive rights. See 379 U.S. at 31. In this case, however, the settlement agreement between petitioners and respondent was explicitly structured as a sale

of the patent in its entirety. See Pet. App. 5-6. The agreement described the obligation of respondent to pay 3% of its net product sales not as a license royalty, but as the "purchase price for the Patent." *Id.* at 6; see *ibid.* (settlement agreement defining "net product sales" to mean "sales that would infringe the Patent *but for the purchase and sale thereof*") (emphasis added).

It is far from clear that the concerns that animated *Brulotte* should apply with equal force to the arms-length sale of a patent, which the Patent Act provides "shall have the attributes of personal property." 35 U.S.C. 261. As the Ninth Circuit has previously observed, "the sale of intellectual property alone * * * is a considerably more complex matter than the contract at issue in *Brulotte*, and the concepts underlying *Brulotte* do not necessarily transfer to that context readily." *Zila*, 502 F.3d at 1021. The court below, however, did not address the distinction between license and sale, instead analyzing the parties' agreement as though it were an ordinary patent license. See Pet. App. 18-26; Br. in Opp. 5 n.2. If this Court granted certiorari, it would therefore be required either to decide in the first instance whether the *Brulotte* rule applies in this meaningfully different context—a step that would be inconsistent with the Court's repeated admonitions that it is "a court of review, not of first view," *Nautilus, Inc.* v. *Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2131 (2014) (quoting *Cutter* v. *Wilkinson*, 544 U.S. 709, 718 n.7 (2005))—or to ignore a salient difference between this case and *Brulotte*.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

DONALD B. VERRILLI, JR.
Solicitor General
JOYCE R. BRANDA
Acting Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
CURTIS E. GANNON
Assistant to the Solicitor General
MARK R. FREEMAN
KATHERINE I. TWOMEY
Attorneys

OCTOBER 2014

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
JAN 15 2014
OFFICE OF THE CLERK

No. 13-720

IN THE

Supreme Court of the United States

STEPHEN KIMBLE, *et al.*,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF *AMICI CURIAE* FOR THE CENTER FOR INTELLECTUAL PROPERTY RESEARCH OF THE INDIANA UNIVERSITY MAURER SCHOOL OF LAW AND OTHER LEGAL AND ECONOMIC SCHOLARS IN SUPPORT OF PETITIONERS

MARK D. JANIS
Counsel of Record
CENTER FOR INTELLECTUAL PROPERTY RESEARCH
INDIANA UNIVERSITY MAURER SCHOOL OF LAW
211 South Indiana Avenue
Bloomington, Indiana 47405
(812) 855-1205
mdjanis@indiana.edu

251434

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

Library of Congress
Law Library

TABLE OF CONTENTS

Page

TABLE OF CONTENTS..... i

TABLE OF CITED AUTHORITIES iii

STATEMENT OF INTEREST OF *AMICI CURIAE* 1

SUMMARY OF ARGUMENT.....1

ARGUMENT..... ...2

I. *BRULOTTE* DISCOURAGES COMMERCIALIZATION OF INVENTIONS..... 2

II. *BRULOTTE* IS INCONSISTENT WITH THE COURT'S CURRENT JURISPRUDENCE AND ITS CONCEPTUAL FOUNDATIONS HAVE BEEN ELIMINATED..... 6

A. Under the Court's Current Jurisprudence, *Per Se* Rules Must be Justified by Economic Analysis.....6

B. *Brulotte* Was a Departure from Existing Law and Its Conceptual Foundations Have Been Eliminated by Subsequent Decisions of This Court.....10

Table of Contents

Page

1. *Brulotte* Was a Departure from Existing Law.....10

2. The Express Foundations of *Brulotte* Have Been Eliminated by Subsequent Decisions of this Court.....12

CONCLUSION 15

APPENDIX.....1a

TABLE OF CITED AUTHORITIES

Page

CASES

Albrecht v. Herald Co.,
390 U.S. 145 (1968) 7, 8

Aronson v. Quick Point Pencil Co.,
440 U.S. 257 (1979) 5

Ar-Tik Systems, Inc. v. Dairy Queen, Inc.,
302 F.2d 496 (3d Cir. 1962) 11

Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.,
339 U.S. 827 (1950) 3, 10, 11, 13

Brulotte v. Thys Co.,
379 U.S. 29 (1964) ..... *passim*

Continental T.V. v. GTE Sylvania,
433 U.S. 36 (1977) 6, 7, 8, 10

Ethyl Gasoline Corp. v. United States,
309 U.S. 436 (1940) 13, 14

Illinois Tool Works Inc. v. Independent Ink, Inc.,
547 U.S. 28 (2006) 12, 14, 15

International Salt Co. v. United States,
332 U.S. 392 (1947) 10

Jefferson Parish Hospital District No. 2 v. Hyde,
466 U.S. 2 (1984) 10

Cited Authorities

Page

Leegin Creative Leather Products v. PSKS,
551 U.S. 877 (2007).....1, 6, 9

Mercoid Corp. v. Mid-Continent Inv. Co.,
320 U.S. 661 (1944).....13, 14

National Soc. of Professional Engineers v. U.S.,
435 U.S. 679 (1978).....8-9

Schreiber v. Dolby Laboratories, Inc.,
293 F.3d 1014 (7th Cir. 2002), *cert. denied*,
537 U.S. 1109 (2003).....13, 15, 16

State Oil Co. v. Khan,
522 U.S. 3 (1997).....7, 9, 12

Thys Co. v. Brulotte,
382 P.2d 271 (Wash. 1963).....11-12

U.S. v. Arnold, Schwinn & Co.,
388 U.S. 365 (1967).....7, 8

Windsurfing International, Inc. v. AMF, Inc.,
782 F.2d 995 (Fed. Cir. 1986).....7

Zenith Radio Corp. v. Hazeltine Research, Inc.,
395 U.S. 100 (1969).....12, 13

Zila, Inc. v. Tinnell,
502 F.3d 1014 (9th Cir. 2007).....15

Cited Authorities

Page

STATUTES AND AUTHORITIES

U.S. Const., Art. 1, Sec. 8 2

35 U.S.C. § 271(d)(5) 14, 15

3 Roger M. Milgrim & Eric E. Bensen, *Milgrim on Licensing* §18.05 (2013) 4

Arti Rai *et al.*, *Patent Reform: Unleashing Innovation, Promoting Economic Growth & Producing High-Paying Jobs*, Department of Commerce (Apr. 13, 2010).... 2

Christine Varney, *Promoting Innovation Through Patent and Antitrust Law and Policy*, Department of Justice (May 26, 2010).....2

Harold See and Frank M. Caprio, *The Trouble with* Brulotte: *The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813 14

Herbert Hovenkamp, *et al.*, *I IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* § 23.2b (2d Ed.).. ...4

John W. Schlicher, 2 *Patent Law, Legal and Economic Principles* §13:192 (2d ed. 2004) 14

Page

Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599 (1990) 9

Raymond T. Nimmer and Jeff Dodd, *Modern Licensing Law* § 13:31 (2012) 14

Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers 283 (1997) 3, 8

Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives To Innovate After MedImmune*, 24 Berkeley Tech. L.J. 971 (2009) 5

U.S. Dept. of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 12 (2007) 8, 16

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marquette Intellectual Property L. Rev. 1 (2011) 15

William E. Kovacic & Carl Shapiro, *Antitrust Policy: A Century of Economic and Legal Thinking*, 14 J. of Econ. Perspectives 43 (2000) 6, 7

STATEMENT OF INTEREST OF *AMICI CURIAE*[1]

Amicus curiae is the Center for Intellectual Property Research of the Indiana University Maurer School of Law (the "Center"), joined by a number of other scholars whose names appear in the Appendix. Neither the Center nor Indiana University has any interest in the outcome of this matter. However, the Center, as a part of its mission, has a strong interest in seeing the patent law develop in a consistent and positive way.

SUMMARY OF ARGUMENT

This Court's decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), holding that post-expiration royalties in patent licenses are "unlawful per se," comes from an era when the Court did not strictly adhere to the economic principles that have become critical to this Court's "more recent jurisprudence." *Leegin Creative Leather Products v. PSKS*, 551 U.S. 877, 887 (2007). Scholars and commentators have long recognized as much, and have urged this Court to reconsider *Brulotte* when presented with an appropriate case.

This is just such a case. The *Brulotte* rule should be reconsidered because (1) it frustrates public policy

---

1. No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amici*, or their counsel, made a monetary contribution intended to fund its preparation or submission. The parties have been given at least ten days' notice of *amici*'s intention to file this brief and both have consented by email. Such consents are being submitted herewith.

supporting commercialization of inventions; and (2) it is out of step with this Court's current economics-based patent/antitrust jurisprudence.[2] The petition for certiorari should be granted.

ARGUMENT

I. *BRULOTTE* DISCOURAGES COMMERCIALIZATION OF INVENTIONS.

According to a recent Department of Commerce study, "factors linked to innovation are responsible for almost three-quarters of the Nation's post-WW II growth rate." Arti Rai *et al.*, *Patent Reform: Unleashing Innovation, Promoting Economic Growth & Producing High-Paying Jobs*, Department of Commerce (Apr. 13, 2010).[3] The patent system fosters this innovation by providing a limited period of exclusivity for inventors to make, use and sell their inventions in exchange for disclosure of information needed to make the inventions after the period of exclusivity has expired. *United States Constitution*, Art. 1, Sec. 8; Christine Varney, *Promoting Innovation Through Patent and Antitrust Law and Policy*, Department of Justice (May 26, 2010).[4]

In the years since *Brulotte*, products covered by patents and other forms of intellectual property have

---

2. Whether the *Brulotte per se* rule should be scrapped in favor of the rule of reason or post-expiration royalties made legal *per se* is a question that can properly be addressed when this case is decided on the merits.

3. http://www.commerce.gov/sites/default/files/documents/migrated/Patent_Reform-paper.pdf

4. http://www.justice.gov/atr/public/speeches/260101.htm

"become increasingly important as a determinant of U.S. industrial progress." Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers 283 (1997).[5] As a result, "[t]echnology licensing and related partnerships are essential in today's economy to remain globally competitive and to market the products that knowledge assets help to create." *Id.* at 283-84.

The rule established in *Brulotte* hinders the innovation needed to make our economy vibrant in an important way not recognized in 1964: the rule discourages flexible licensing agreements needed for commercialization of inventions. This Court has long recognized the unquestioned ability of a patent owner to license others to exploit the invention in exchange for a "fixed sum for the privilege to use the patents." *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.*, 339 U.S. 827, 833 (1950). While there are numerous ways in which a licensor and licensee might structure the payment of that sum, the *Brulotte* rule privileges a very few while forbidding all others, without economic justification.

For example, suppose a licensee has agreed to pay a fixed sum of $1 million for use of a patent over its remaining term. If the licensee pays the $1 million during the patent term, the *Brulotte* rule is satisfied. By contrast, if the licensee is unable to muster the $1 million fixed sum all at once, the parties might prefer to have the licensee sign a promissory note agreeing to pay $1 million, plus interest, in fixed amounts over a period that extends beyond the expiration of the patent. However, "*Brulotte*'s

5. http://faculty.haas.berkeley.edu/shapiro/ninenono.pdf

per se rule limits the ability of patentees to amortize royalty payments over longer periods than the remaining life of the patent, even when such an arrangement is in the interest of the licensee." Herbert Hovenkamp, et al., I IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law § 23.2b (2d Ed.).

Morever, the *Brulotte* rule would inexplicably forbid numerous alternative approaches that might be economically optimal for the licensor and licensee. For example, suppose a patentee offers a license for a royalty of 10% of sales per year for the remaining 10 years of the patent. In response, the offeree, out of a concern for cash flow, proposes 5% for 20 years, which the patentee accepts. Under *Brulotte's* per se rule, the Court would deem the patentee to have leveraged its patent in a manner that expanded the patent's scope whereas, in fact and as an economic proposition, it was the licensee who leveraged his willingness to enter into a license to obtain more favorable royalty terms. To penalize the patentee for accepting the best terms it could get for a license to its patent would both impose an undue hardship on the individual patentee and discourage optimizing economic returns for inventive activity.

Consider a further example premised on the observation that "[b]oth licensor and licensee may be better served by an arrangement in which the royalty rate is low but the term of royalty extended. The low royalty rate might help the licensee in the early investment phase and thereby encourage it to take the risks to launch new, and thus inherently risk-prone, technology." 3 Roger M. Milgrim & Eric E. Bensen, Milgrim on Licensing §18.05 (2013). Suppose a potential licensee of a patent having

limited remaining life decides to build its business quickly through expensive promotion, hoping customers will remain loyal to it after the patent expires. To be able to afford the promotion expense, the potential licensee proposes to pay the licensor reduced royalties on sales before the patent's expiration in exchange for continued royalties thereafter, seeing the post-expiration sales as resulting from activities during the patent term. *Cf. Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) (royalties payable after product is in the public domain are equivalent to "other costs involved in being the first to introduce a new product to the market.") This and innumerable similar examples of flexible royalty arrangements are precluded by *Brulotte* even if they could lead to increased commercialization of inventions because the *Brulotte* Court was "unable to conjecture" any legitimate reason for extending royalties beyond a patent's expiration. *Brulotte,* 379 U.S. at 32.

By precluding flexible licensing arrangements, even if suggested by and advantageous to the licensee, *Brulotte* "causes affirmative social harm" because it "unduly restricts access and exploitation of the patented invention, producing unjustified inefficiencies." Chiappetta, *supra* at 42-43. *Accord* Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives To Innovate After MedImmune*, 24 Berkeley Tech. L.J. 971, 973 (2009) ("*Lear* and *Brulotte* are certainly out of step with current economic understanding and business practices. Rules that give licensing parties greater flexibility to structure their arrangements can make licensing more efficient, improve public access to new technologies, and enhance incentives to innovate.")

The *Brulotte* decision has adverse effects on innovation that the Court did not anticipate. For that reason alone, the Court should reconsider its *Brulotte* decision. *Leegin Creative Leather Products v. PSKS*, 551 U.S. 877, 894 (2007) (*per se* rule overruled because it "would proscribe a significant amount of procompetitive conduct.")

II. *BRULOTTE* IS INCONSISTENT WITH THE COURT'S CURRENT JURISPRUDENCE AND ITS CONCEPTUAL FOUNDATIONS HAVE BEEN ELIMINATED.

A. Under the Court's Current Jurisprudence, *Per Se* Rules Must be Justified by Economic Analysis.

It is not surprising that *Brulotte* ignored the adverse effects on innovation and the disclosure of inventions caused by its rule of *per se* illegality. The decision comes from an era in which this Court's antitrust jurisprudence reflected "a search for ways to simplify the government's burden of proof." William E. Kovacic & Carl Shapiro, *Antitrust Policy: A Century of Economic and Legal Thinking*, 14 J. of Econ. Perspectives 43, 49 (2000). Many of those decisions, like *Brulotte*, imposed rules of *per se* illegality without any consideration of economic effects.

Under what this Court has called its "more recent jurisprudence," *per se* rules "must be based on demonstrable economic effect rather than . . . upon formalistic line drawing." *Leegin*, *supra*, 551 U.S. at 88, *quoting Continental T.V. v. GTE Sylvania*, 433 U.S. 36, 58-59 (1977). Consequently, "few decisions of [the *Brulotte*] era command praise today." Kovacic & Shapiro, *supra*, at

51. In fact, most of the *per se* decisions of the *Brulotte* era have been overruled.

For example, in *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365, 380 (1967), decided three years after *Brulotte*, the Court declared restrictions on a dealer's territories illegal *per se* on the authority of "the ancient rule against restraints on alienation." In 1977 the Court overruled *Schwinn*, however, noting that "an antitrust policy divorced from market considerations would lack any objective benchmark." *Continental T.V. v. GTE Sylvania*, 433 U.S. 36, 53 n.21 (1977). In rejecting *per se* condemnations of vertical territorial restrictions, the Court took account of "substantial scholarly and judicial authority supporting their economic utility." 433 U.S. at 57-58.

In 1997, the Court overruled *Albrecht v. Herald Co.*, 390 U.S. 145 (1968), decided four years after *Brulotte*. *State Oil Co. v. Khan*, 522 U.S. 3 (1997). The Court found "insufficient economic justification for *per se* invalidation of vertical maximum price fixing" and considered "the substantial criticism the decision has received." 522 U.S. at 18.

In the nearly fifty years since *Brulotte*, this Court's shifting method of analysis has also led antitrust enforcement authorities to change their views on the illegality of a variety of activities once thought to be illegal *per se*. That change has been especially pronounced with respect to licensing of patents and other forms of intellectual property. *See Windsurfing International, Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) ("Recent economic analysis questions the rationale behind holding

any licensing practice per se anticompetitive," citing, *inter alia, GTE Sylvania.*)

In the early 1970's, following on the heels of *Brulotte, Schwinn and Albrecht*, the Antitrust Division of the Department of Justice announced nine licensing practices, apparently considered illegal *per se*, which became known as the "Nine No No's." Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers 283, 285-86 and n.8 (1997).[6]

In 1995, the Department of Justice and Federal Trade Commission issued *Antitrust Guidelines for the Licensing of Intellectual Property* ("Licensing Guidelines").[7] These Licensing Guidelines rejected the *per se* approach of the Nine No No's "because licensing often has significant efficiency benefits." Gilbert & Shapiro, *supra*, at 287.[8] This approach was then followed in the 2007 Report that rejected *per se* treatment of post-expiration royalties because "[c]ollecting royalties beyond a patent's statutory term can be efficient." U.S. Dept. of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 12 (2007).

As this Court has recognized, the broad provisions of the Sherman Act are given shape "by drawing on common-law tradition." *National Soc. of Professional Engineers*

---

6. http://faculty.haas.berkeley.edu/shapiro/ninenono.pdf

7. http://www.justice.gov/atr/public/guidelines/0558.htm

8. Prof. Gilbert led the task force that drafted the Licensing Guidelines. Gilbert & Shapiro, *supra*, at 283.

v. U.S., 435 U.S. 679, 688 (1978).[9] Consequently, when resolving issues arising under the antitrust laws, this Court has an interest "in recognizing and adapting to changed circumstances and the lessons of accumulated experience." *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997). Because of that accumulating experience, the Court's methods of analyzing antitrust issues are different than they were when *Brulotte* was decided. *Per se* rules can no longer be justified without "demonstrable economic effect rather than . . . upon formalistic line drawing." *Leegin*, *supra*, 551 U.S. at 88. *Brulotte* made no effort to determine the economic consequences of its ruling, Hovenkamp, et al., *supra*, at § 23.a (observing that the *Brulotte* Court did not attempt to analyze anticompetitive effects), and it is doubtful that any anticompetitive effects existed, because once the patents expired, "other manufacturers would be free to duplicate the patented technology without obligation to the patentee." *Id.* That alone warrants a reconsideration of the rigid *per se* treatment of post-expiration royalties that decision requires.

---

9. The principles underlying patent misuse are similarly derived from the common law. Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L.Rev. 1599, 1608 (1990).

B. *Brulotte* Was a Departure from Existing Law and Its Conceptual Foundations Have Been Eliminated by Subsequent Decisions of This Court.

1. *Brulotte* Was a Departure from Existing Law.

The *Brulotte* decision, like the overruled *Schwinn* decision, "was an abrupt and largely unexplained departure from" existing law. *GTE Sylvania,* 433 U.S. at 47. *Brulotte* holds that requiring a licensee to pay royalties on products not covered by a patent constitutes "projection of the patent monopoly." *Brulotte,* 379 U.S. at 32. That conclusion was inexplicably contrary to this Court's decision in *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.,* 339 U.S. 827 (1950).

In *Hazeltine*, a patent licensee argued that an agreement requiring "payment on unpatented goods" during the term of the patent constituted patent misuse. *Hazeltine,* 339 U.S. at 832. The licensee argued that the agreement was "identical in principle" to "'Tie-in' cases" in which a licensor requires the licensee to purchase unpatented goods from the licensor. *Id.* Such "Tie-ins" are condemned because they foreclose at least a portion of the market to competitors of the patent owner and "competition on the merits in the market for the tied item is restrained . . . ." *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 12 (1984); *International Salt Co. v. United States*, 332 U.S. 392, 396 (1947).

The *Hazeltine* Court expressly rejected the claimed analogy, holding that the required payment of money

for selling unpatented goods "does **not** create another monopoly." 339 U.S. at 833 (emphasis added). Relying on this conclusion, the Court held that requiring the payment of royalties on all sales, whether covered by the patent or not, is "not per se a misuse of patents . . . ." *Hazeltine*, 339 U.S. at 834. Justices Douglas and Black dissented from this decision.

The *Brulotte* decision was written by Justice Douglas, who essentially adopted his dissenting views in *Hazeltine*. Without rejecting the logic of *Hazeltine* that requiring royalties on unpatented products **cannot** "create another monopoly" (339 U.S. at 833), the *Brulotte* Court simply "decline[d] the invitation to extend it so as to project the patent monopoly beyond the 17-year period." 379 U.S. at 33. The Court provided no basis for its conclusion that requiring royalties on unpatented products after a patent's expiration has a different effect from requiring royalties on unpatented products before that expiration. Instead, the Court's decision simply relied on the analogy to tying cases that the *Hazeltine* majority had expressly rejected. *Id.*

The decision in *Brulotte* that an agreement to pay royalties after a patent has expired is "unlawful per se" (379 U.S. at 32) was also an abrupt departure from the views of leading scholars at the time. Patent and licensing treatises, relying on existing cases, concluded that "an agreement to pay royalties after a patent has expired may be valid and binding." *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F.2d 496, 506 (3d Cir. 1962). The Supreme Court of Washington, in the decision reversed in *Brulotte*, expressly took note of those authorities and the cases on which they relied. *Thys Co. v. Brulotte*, 382 P.2d 271, 290-

91 (Wash. 1963). In reversing, this Court did not mention the treatises or the cases.

2. The Express Foundations of *Brulotte* Have Been Eliminated by Subsequent Decisions of this Court.

The Court has rejected *per se* rules from the *Brulotte* era "when the theoretical underpinnings of those decisions are called into serious question." *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 42 n.3 (2006), quoting *State Oil Co. v. Khan*, 522 U.S. 3, 21 (1997). The underpinnings of the *Brulotte* decision began crumbling soon after the case was decided.

In *Zenith Radio Corp. v. Hazeltine Research, Inc.* 395 U.S. 100 (1969), the Court again considered whether requiring royalties on unpatented products during a patent term should be illegal *per se*. Although citing the *Brulotte* decision, the Court ignored its language about efforts to extend a patent beyond its legitimate scope being "unlawful per se" no matter what the circumstances. Instead, the Court characterized *Brulotte* as articulating the "principle that a patentee may not use the power of his patent to levy a charge for making, using, or selling products not within the reach of the monopoly granted by Congress." 395 U.S. at 136-37.

The Court expressly noted that the relevant consideration is whether the licensor "used its patent leverage to coerce a promise to pay royalties on [products] not practicing the learning of the patent." 395 U.S. at 138. As a result, "[i]f convenience of the parties rather than patent power dictates the [challenged] royalty provision,

there are no misuse of the patents and no forbidden conditions attached to the license." 395 U.S. at 138.

The market power of the patent, the existence of coercion and the convenience of the licensee are precisely the factors the *per se* rule articulated in *Brulotte*, by its express terms, **precludes** being considered. *See Brulotte*, 379 U.S. 34-38 (Harlan, J., dissenting). This Court's characterization of the *Brulotte* holding shows that even by 1969, its rigidity was being rejected. But that characterization cannot relieve the lower courts from following it, as written. *See also Schreiber v. Dolby Laboratories, Inc.*, 293 F.3d 1014, 1019 (7th Cir. 2002), *cert. denied*, 537 U.S. 1109 (2003) (inconsistent decisions of the Court provide "no warrant for declaring *Brulotte* overruled.")

As noted by Petitioner, recent decisions of Congress and this Court have eliminated any basis for the *Brulotte* decision under its articulated rationale. The *Brulotte* Court found the required payment of royalties after the expiration of the patent to be "analogous to an effort to enlarge the monopoly of the patent by tying the sale or use of the patented article to the purchase or use of unpatented ones. *See Ethyl Gasoline Corp. v. United States*, 309 U.S. 436; *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 664-665, and cases cited." *Brulotte*, 379 U.S. at 179. The tying analogy itself was rejected by this Court in *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.*, 339 U.S. 827, 833 (1950). Leaving aside the inappropriateness of the analogy,[10] the cases cited in 1964 had held that tying

10. *Brulotte's* conclusion that requiring payment of royalties "after the patent has expired is an assertion of monopoly power in

arrangements involving patents were always illegal based on the presumption that all patents, no matter what their claims covered, created a "monopoly." *Ethyl Gasoline*, at 456 ("The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or selling his invention."); *Mercoid*, at 666 ("The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly.")

The presumption that a patent inevitably creates a monopoly "has its foundations in the judicially created patent misuse doctrine." *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 31 (2006). In 1988, Congress eliminated the presumption that a patent necessarily creates a monopoly in the context of claims for patent misuse based on allegations of tying involving a patent. *Id.* at 39; 35 U.S.C. §271(d)(5).

In *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), this Court looked at its cases

---

the post-expiration period" analogous to tying agreements (379 U.S. at 179-80) is wrong as a matter of economics, a fact on which economists and commentators agree. *See, e.g.*, Harold See and Frank M. Caprio, *The Trouble with* Brulotte: *The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 847 ("In no way, however, can the patent monopoly be extended beyond its term by the use of a royalty."); John W. Schlicher, 2 Patent Law, Legal and Economic Principles §13:192 (2d ed. 2004) ("The use of the longer royalty term does not permit the patent owner to turn a patent with a 20 year term into a patent with a 30 year term .... The market power existing during the term patent can be exploited only once."); Raymond T. Nimmer and Jeff Dodd, Modern Licensing Law § 13:31 (2012) (Post-expiration royalties do not "expand the claims or the scope of the patent.").

holding that the existence of a patent necessarily makes tying illegal. Recognizing the "vast majority of academic literature on the subject" and the action of Congress in the misuse context, the Court overruled all prior decisions holding that patents inevitably create the market power necessary to make a tie involving patents illegal *per se*. *Id.* at 43 and n. 4. As a result, a claim of tying involving a patent "must be supported by proof of power in the relevant market rather than by a mere presumption thereof." *Id.*

The enactment of 35 U.S.C. §271(d)(5) and the decision in *Illinois Tool Works* have eliminated the express underpinnings of the *Brulotte* rule. Patents are no longer presumed to create monopoly power. The elimination of the presumption on which the *per se* rule of *Brulotte* was based is another sufficient justification for a reconsideration of that rule. *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 42 n.3 (2006).

CONCLUSION

By ignoring the potential pro-competitive benefits of flexible licensing arrangements, including arrangements that may allow for post-expiration royalties, the *Brulotte* decision "causes affirmative social harm." Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marquette Intellectual Property L. Rev. 1, 142-43 (2011). Two Courts of Appeals have invited the Court to reconsider the rigid rule *Brulotte* requires them to apply. *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1019-20 (9th Cir. 2007); *Schreiber*, 293 F.3d at 1018. They have been joined by what was described in 2002 as a "tidal wave of legal and economic scholarship." *Scheiber, supra*, 293 F.3d

at 1020. In 2007, the Department of Justice and Federal Trade Commission added to that scholarship, rejecting *per se* treatment for post-expiration royalties because "[c]ollecting royalties beyond a patent's statutory term can be efficient." U.S. Dept. of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 12 (2007).[11] The Court should grant the petition for certiorari and should take up this opportunity to reconsider *Brulotte* against the backdrop of contemporary views on the economics of patent licensing.

Respectfully submitted,

MARK D. JANIS
Counsel of Record
CENTER FOR INTELLECTUAL
PROPERTY RESEARCH
INDIANA UNIVERSITY MAURER
SCHOOL OF LAW
211 South Indiana Avenue
Bloomington, Indiana 47405
(812) 855-1205
mdjanis@indiana.edu

11. http://www.justice.gov/atr/public/hearings/ip/222655.pdf

APPENDIX

Eric E. Bensen, New York City, NY (co-author: Milgrim on Licensing; Milgrim on Trade Secrets; Patent Licensing Transactions; Patent Law Perspectives).

Vincent Chiappetta, Professor of Law, Willamette University College of Law.

Thomas F. Cotter, Briggs and Morgan Professor of Law, University of Minnesota Law School.

Rochelle Dreyfuss, Pauline Newman Professor of Law, New York University School of Law.

Jason Du Mont, Microsoft IP Fellow, Indiana University Maurer School of Law.

Marshall Leaffer, Distinguished Scholar in Intellectual Property Law and University Fellow, Indiana University Maurer School of Law.

Michael Mattioli, Assoc. Professor of Law, Indiana University Maurer School of Law.

Roger M. Milgrim, Easton, PA (author: Milgrim's Guide to IP Licensing; co-author: Milgrim on Licensing; Milgrim on Trade Secrets).

Raymond T. Nimmer, Leonard Childs Professor of Law and Co-Director of Houston Intellectual Property and Information Institution, University of Houston Law Center; Distinguished Chair in Residence, Universidad Catholica, Lisbon, Portugal.

Justice Harold See (Alabama Supreme Court, retired), Professor of Law, Belmont University.

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED

No. 13-720

In the
Supreme Court of the United States

STEPHEN KIMBLE, ET AL.,
Petitioners,

v.

MARVEL ENTERPRISES, INC.,
Respondent.

On Petition for a Writ of Certiorari to the U.S. Court of Appeals for the Ninth Circuit

BRIEF OF THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO AS AMICUS CURIAE ON PETITION FOR WRIT OF CERTIORARI IN SUPPORT OF PETITIONERS

DAVID L. APPLEGATE*
WILLIAMS MONTGOMERY & JOHN LTD.
6100 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 443-3200
dla@willmont.com

BRENT A. HAWKINS
PRESIDENT
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
P.O. Box 472
Chicago, IL 60609
(312) 984-7764

Of Counsel:
CHARLES W. SHIFLEY
BANNER & WITCOFF, LTD.
10 South Wacker Drive
Suite 3000
Chicago, IL 60606
(312) 463-5000

DONALD W. RUPERT
MARSHALL, GERSTEIN & BORUN LLP
6300 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 474-6300

February 24, 2014

*Counsel of Record

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES ii

INTEREST OF *AMICUS CURIAE* 1

SUMMARY OF ARGUMENT 2

ARGUMENT 3

I. *BRULOTTE* RUNS COUNTER TO THIS COURT'S OTHERWISE SOUND APPLICATION OF ECONOMIC PRINCIPLES TO PATENT AND ANTITRUST LAW 3

II. THE COURT SHOULD TAKE THIS OPPORTUNITY TO RECONSIDER *BRULOTTE* 5

CONCLUSION 1

TABLE OF AUTHORITIES

Cases

Albrecht v. Herald Co.,
390 U.S. 145 (1968) 4

Ar-Tik Systems, Inc. v. Dairy Queen, Inc.,
302 F.2d 496 (3d Cir. 1962) 6

Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.,
339 U.S. 827 (1950) 4

Brulotte v. Thys Co.,
379 U.S. 29 (1964) 2, 4, 5, 6, 7, 1

Continental T.V. v. GTE Sylvania,
433 U.S. 36 (1977) 3

Jahn v. 1-800-FLOWERS.com, Inc.,
284 F.3d 807 (7th Cir.2002) 6

Scheiber v. Dolby Laboratories, Inc.,
293 F.3d 1014 (7th Cir. 2002) 6, 7

Spectrum Sports, Inc. v. McQuillan,
506 U.S. 447 (1993) 3

State Oil Co. v. Khan,
522 U.S. 3 (1997) 4, 5

Stephen Kimble v. Marvel Enterprises Inc.,
727 F.3d 856 (9th Cir. 2013) ..... i, 5, 6

Thys Co. v. Brulotte,
382 P.2d 271 (Wash. 1963) 5

U.S. v. Arnold, Schwinn & Co.,
388 U.S. 365 (1967) 3

USM Corp. v. SPS Technologies, Inc.,
694 F.2d 505 (7th Cir.1982) 6

Windsurfing International, Inc. v. AMF, Inc.,
782 F.2d 995 (Fed. Cir. 1986) 4

Zila, Inc. v. Tinnell,
502 F.3d 1014 (9th Cir. 2007) 6

Other Authorities

10 Phillip E. Areeda et al., Antitrust Law,
§§ 1782c2-c3, pp. 505-11 (1996) 7

Harold See & Frank M. Caprio, *The Trouble with Brulotte: the Patent Royalty Term and Patent Monopoly Extension*,
1990 Utah L.Rev. 813 (1990) 7

John W. Schlicher, 2 Patent Law, Legal and Economic Principles,
§13:192 (2d ed. 2004) 7

Michael Koenig, *Patent Royalties Extending Beyond Expiration: An Illogical Ban From Brulotte To Scheiber*,
2 Duke Law & Technology Review 1-11 (2003) 7

Raymond T. Nimmer and Jeff Dodd, Modern Licensing Law,
§ 13:31 (2012) 6

Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*,
72 Va. L.Rev. 677 (1986) 7

U.S. Const., Art. 1, Sec. 8. 3

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*,

15 Marquette Intellectual Property L. Rev. 1, 142 (2011) 7

INTEREST OF *AMICUS CURIAE*

The Intellectual Property Law Association of Chicago ("IPLAC") submits this brief as amicus curiae, but in support of neither party on the ultimate merits of the case.[1,2,3] Founded in 1884, the Intellectual Property Law Association of Chicago is a voluntary bar association of over 1,000 members who practice in the areas of patents, trademarks,

---

[1] Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in any part, no such counsel or a party made a monetary contribution intended to fund the preparation or submission of the brief, and no person other than the *amicus curiae*, its members, or its counsel, made such a monetary contribution.

[2] In addition to the required statement of footnote 1, IPLAC adds that after reasonable investigation, IPLAC believes that (a) no member of its Board or Amicus Committee who voted to prepare this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (b) no representative of any party to this litigation participated in the authorship of this brief, and (c) no one other than IPLAC, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

[3] Pursuant to Supreme Court Rule 37.2, counsel of record received timely notice of the intent to file this brief under the Rule and consent was granted.

copyrights, trade secrets and the legal issues they present. IPLAC is the country's oldest bar association devoted exclusively to intellectual property matters. In litigation, IPLAC's members are split about equally between plaintiffs and defendants. Its members include attorneys in private and corporate practices before federal bars throughout the United States, as well as the U.S. Patent and Trademark Office and the U.S. Copyright Office. As part of its central objectives, IPLAC is dedicated to aiding in the development of intellectual property law, especially in the federal courts.[4]

SUMMARY OF ARGUMENT

Half a century ago, in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), this Court held that post-expiration royalties in patent licenses were "unlawful per se." *Brulotte* predates the Court's more recent application of sound economic principles to deciding cases. *Brulotte* is now roundly criticized as out of step with this Court's economics-based patent and antitrust jurisprudence. Such criticisms should not be ignored. This case presents the Court with a timely opportunity to reconsider *Brulotte*. IPLAC therefore urges the Court to grant the petition for certiorari.

---

[4] Although over 30 federal judges are honorary members of IPLAC, none of them was consulted or participated in any way regarding this brief.

ARGUMENT

I. *BRULOTTE* RUNS COUNTER TO THIS COURT'S OTHERWISE SOUND APPLICATION OF ECONOMIC PRINCIPLES TO PATENT AND ANTITRUST LAW

This Court's jurisprudence has long been informed by sound principles of economic analysis. Economically sound jurisprudence is particularly important at the interface of patent law and antitrust law, which are in tension. Patents confer a time-limited right to exclude others from practicing patented inventions. U.S. Const., Art. 1, Sec. 8. Antitrust law seeks to prevent the exercise of monopoly power. *E.g.*, 15 U. S. C. § 2. This Court now rightly recognizes that laws designed to promote commerce and industry should be applied to achieve that aim. *E.g., Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 458 (1993) ("The [antitrust] law directs itself not against conduct which is competitive, even severely so, but against conduct which unfairly tends to destroy competition itself.")

In *Continental T.V. v. GTE Sylvania*, 433 U.S. 36, 53 (1977), for example, this Court overruled *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365, 380 (1967). The Court had decided *Schwinn* just ten years earlier. *Schwinn* had declared restrictions on a dealer's territories illegal *per se* on the authority of "the ancient rule against restraints on alienation." 433 U.S. at 53 n.21. But by 1977 the Court was ready to consider "substantial scholarly and judicial authority" supporting economic analysis and so reversed itself. 433 U.S. at 57-58.

More recently, in *State Oil Co. v. Khan*, 522 U.S. 3 (1997), the Court overruled *Albrecht v. Herald Co.*, 390 U.S. 145 (1968) as economically unsound. *Khan* noted "the substantial criticism the [*Albrecht*] decision has received." 522 U.S. at 18. It therefore found "insufficient economic justification for *per se* invalidation of vertical maximum price fixing." *Id.* *See also, e.g., Windsurfing International, Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) ("Recent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive," *citing, inter alia, GTE Sylvania.*)

The Court decided *Schwinn* three years after *Brulotte,* and *Albrecht* just a year after that. *Brulotte* has received comparable criticism and yet remains the law of this Court. Yet like *Schwinn*, *Brulotte* "was an abrupt and largely unexplained departure from" existing law. *GTE Sylvania*, 433 U.S. at 47. In essence, *Brulotte* inexplicably adopted Justice Douglas's dissent from *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.*, 339 U.S. 827 (1950). It also relied on an analogy to tying cases that *Hazeltine* itself had expressly rejected. *Compare Brulotte,* 339 U.S. at 33, to *Hazeltine*, 339 U.S. at 832-33.

In short, *Brulotte* is an antiquated outlier in this Court's jurisprudence that cries out for revisiting.

II. THE COURT SHOULD TAKE THIS OPPORTUNITY TO RECONSIDER *BRULOTTE*

Under the antitrust laws, this Court has an interest "in recognizing and adapting to changed circumstances and the lessons of accumulated experience." *State Oil Co.*, at 522 U.S. at 20. In applying and interpreting patent law, sound economic analysis is also of paramount importance. *See, e.g.*, Kenneth W. Dam, The Economic Underpinnings Of Patent Law, John M. Olin Law & Economics Working Paper No. 19 (2d Series) at 2 ("In discussing the economic underpinnings of patent law, it is well to remember that this branch of the law is based squarely on an economic policy articulated in the Constitution.")

This case explicitly invites the Court to revisit *Brulotte* in view of accumulated experience. As in *Brulotte*, a voluntary license requires payment after the licensed patent expired, but in no way extends the patent itself. And the court below here notes with frustration *Brulotte*'s apparent unsoundness. *Stephen Kimble v. Marvel Enterprises Inc.*, 727 F.3d 856, 857 (9th Cir. 2013) ("This appeal calls on us to again construe the Supreme Court's frequently-criticized decision in *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964).").

Brulotte was controversial from the start. In reversing the court below, it ignored without comment many contrary cases and authorities. See *Thys Co. v. Brulotte*, 382 P.2d 271, 290-91 (Wash. 1963) (expressly noting such authorities and cases on which they relied); *see also, e.g., Ar-Tik Systems, Inc.*

v. Dairy Queen, Inc., 302 F.2d 496, 506 (3d Cir. 1962) ("an agreement to pay royalties after a patent has expired may be valid and binding"). In the past fifty years the controversy has reached a crescendo, both judicial and academic.

Judicial criticism began with Justice Harlan's dissent. *Brulotte*, 379 U.S. at 34 (1964) ("I think that more discriminating analysis than the Court has seen fit to give this case produces a different result.") It continues with the 9th Circuit decision below. *Stephen Kimble*, 727 F.3d at 857 ("[In] *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1021 (9th Cir. 2007) ... [w]e acknowledged that the *Brulotte* rule is counterintuitive and its rationale is arguably unconvincing. *Id.* at 1019–20 & n.4.").

At least two Courts of Appeals have explicitly invited the Court to reconsider *Brulotte*. *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1019-20 (9th Cir. 2007); *Scheiber v. Dolby Laboratories, Inc.*, 293 F.3d 1014, 1018 (7th Cir. 2002), *cert. denied*, 537 U.S. 1109 (2003), 293 F.3d at 1018. Others criticize it or similar reasoning. *See, e.g., USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 510-11 (7th Cir.1982); *cf. Jahn v. 1-800-FLOWERS.com, Inc.*, 284 F.3d 807, 811-12 (7th Cir.2002) (deferred royalty for a lawful sale does not violate subsequent laws or regulations proscribing such sales).

Academic criticism is nearly ubiquitous and unanimous. *E.g.*, Raymond T. Nimmer and Jeff Dodd, Modern Licensing Law § 13:31 (2012) (Post-expiration royalties do not "expand the claims or the scope of the patent."); Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15

Marquette Intellectual Property L. Rev. 1, 142-43 (2011) (*Brulotte* "causes affirmative social harm"); John W. Schlicher, 2 Patent Law, Legal and Economic Principles §13:218 at 13-388 (2d ed. 2009) ("The use of the longer royalty term does not permit the patent owner to turn a patent with a 20 year term into a patent with a 30 year term . . . The market power existing during the term [sic] patent can be exploited only once."); Michael Koenig, *Patent Royalties Extending Beyond Expiration: An Illogical Ban From Brulotte To Scheiber,* 2 Duke Law & Technology Review 1-11 (2003); 10 Phillip E. Areeda et al., Antitrust Law §§ 1782c2-c3, p. 505 (1996) ("*Brulotte* refused to see that typically such post-expiration royalties merely amortize the price of using patented technology."); Harold See & Frank M. Caprio, *The Trouble with Brulotte: the Patent Royalty Term and Patent Monopoly Extension,* 1990 Utah L.Rev. 813, 814, 851 (1990); Rochelle Cooper. Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate,* 72 Va. L.Rev. 677, 709-12 (1986).

CONCLUSION

The time has come for this Court to settle whether *Brulotte* should remain good law. The Court should grant the petition for *certiorari*.

Respectfully submitted,

DAVID L. APPLEGATE*
WILLIAMS MONTGOMERY & JOHN LTD.
6100 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 443-3200
dla@willmont.com

Of Counsel:
CHARLES W. SHIFLEY
BANNER & WITCOFF, LTD.
10 South Wacker Drive
Suite 3000
Chicago, IL 60606
(312) 463-5000

BRENT A. HAWKINS
PRESIDENT
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
P.O. Box 472
Chicago, IL 60609
(312) 984-7764

DONALD W. RUPERT
MARSHALL, GERSTEIN & BORUN LLP
6300 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 474-6300

Counsel for Amicus Curiae
The Intellectual Property Law Association of Chicago

February 24, 2014

*Counsel of Record

AMICUS CURIAE BRIEF

No. 13-720

Supreme Court, U.S.
FILED
FEB 24 2014
OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

STEPHEN KIMBLE and MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF MEMORIAL SLOAN-KETTERING CANCER CENTER, ICAHN SCHOOL OF MEDICINE AT MOUNT SINAI, THE RESEARCH FOUNDATION FOR THE STATE UNIVERSITY OF NEW YORK, AND THE ROCKEFELLER UNIVERSITY, AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

HARVEY M. STONE
Counsel of Record
JEFFREY M. EILENDER
ELIZABETH WOLSTEIN
SCHLAM STONE & DOLAN LLP
26 Broadway
New York, NY 10004
(212) 344-5400
hms@schlamstone.com

Attorneys for Amici Curiae

252108

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

Library of Congress
Law Library

QUESTION PRESENTED

Whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which held that a contract providing for payment of patent royalties after the patent's expiration is *per se* illegal.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

TABLE OF CONTENTS ii

TABLE OF CITED AUTHORITIES iv

INTERESTS OF *AMICI CURIAE* 1

SUMMARY OF THE ARGUMENT 3

REASONS FOR GRANTING THE PETITION 5

THE COURT SHOULD OVERRULE *BRULOTTE*'S *PER SE* PROHIBITION AGAINST LICENSE AGREEMENTS THAT PROVIDE FOR PAYMENT OF PATENT ROYALTIES AFTER THE PATENT HAS EXPIRED 5

A. Allowing Licensees To Extend Royalty Payments Over Time Promotes The Transformation Of Medical And Scientific Research Into Potentially Life-Altering Drugs That Benefit The Public 5

B. Neither The Patent Statutes Nor Their Underlying Policies Justify A *Per Se* Ban On Post-Expiration Royalties 9

Table of Contents

Page

C. Post-Expiration Royalties Can Provide Substantial Pro-Competitive Benefits And Further The Goals Of The Patent System 11

D. Use Of Post-Expiration Royalties For Anti-Competitive Purposes Can Be Policed By Application Of Antitrust Principles 13

E. The Ninth Circuit's Expansive Reading Of The *Brulotte* Rule To Invalidate Complex Licenses That Do Not Separately Account For The Value Of Patent Rights Further Constrains The Commercialization Of Important Laboratory Discoveries 17

CONCLUSION 19

TABLE OF CITED AUTHORITIES

Page

Cases:

Arizona v. Maricopa County Medical Society,
457 U.S. 332 (1982) 17

Brulotte v. Thys Co.,
379 U.S. 29 (1964). ..... *passim*

Broadcast Music, Inc. v. CBS,
441 U.S. 1 (1979) 14

California Dental Association v. Federal Trade Commission,
526 U.S. 756 (1999) 16

Carbice Corp. v. American Patents Development Corp.,
283 U.S. 27 (1931) 16

Federal Trade Commission v. Actavis, Inc.,
133 S. Ct. 2223 (2013) 13, 15

Illinois Tool Works Inc. v. Independent Ink Inc.,
547 U.S. 28 (2006) 15

In re Kaplan,
789 F.2d 1574 (Fed. Cir. 1986) 9

Kimble v. Marvel Enterprises, Inc.,
727 F.3d 856 (9th Cir. 2013) 3, 10, 11

Cited Authorities

Page

Scheiber v. Dolby Laboratories, Inc.,
293 F.3d 1014 (7th Cir. 2002), *cert. denied*,
537 U.S. 3 (1997)... .....3, 11

Singer Manufacturing Co. v.
June Manufacturing. Co.,
163 U.S. 169 (1896)..... . ..10

State Oil Co. v. Khan,
522 U.S. 3 (1997).....14

United States v. Topco Associates, Inc.,
405 U.S. 596 (1972).....14

USM Corp. v. SPS Techs.,
694 F.2d 505 (7th Cir. 1982) 14

Virginia Panel Corp. v. Mac Panel Co.,
133 F.3d 860 (Fed. Cir. 1997) . ..... .14

Constitution & Statutes:

United States Constitution, Article I, § 8, cl. 8 9

35 U.S.C. § 154 (2014) 10

35 U.S.C. § 200 (2014) 8

35 U.S.C. § 271(d)(5) (2014).....15

Page

Other Authorities:

Roger B. Anderwelt, *Competition Policy and the Patent Misuse Doctrine*, 25 Pat. Trademark & Copyright J. 41 (Nov. 11, 1982) 16

Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust and Their Application* (3d ed. 2011) 11, 16

Association of University Technology Managers, *AUTM Licensing Activity Survey: FY 2012* (2013) 8

Howard Markey, *"Why Not the Statute?"* 65 J. Pat. Off. Soc'y 331 (1983) 10

Note, *An Economic Analysis of Royalty Terms in Patent Licenses*, 67 Minn. L. Rev. 1198 (1983) 11, 12

United States Department of Justice & U.S. Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995) 13, 14

BRIEF OF MEMORIAL SLOAN-KETTERING CANCER CENTER, ICAHN SCHOOL OF MEDICINE AT MOUNT SINAI, THE RESEARCH FOUNDATION FOR THE STATE UNIVERSITY OF NEW YORK, AND THE ROCKEFELLER UNIVERSITY, AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

INTERESTS OF *AMICI CURIAE*[1]

Amici are leading academic research institutions and affiliates. The Memorial Sloan-Kettering Cancer Center ("Sloan-Kettering") is the world's oldest and largest private institution devoted to patient care, education, and research relating to cancer. Comprised of a basic research unit (the Sloan-Kettering Institute for Cancer Research) and a patient-care unit (the Memorial Hospital for Cancer and Allied Diseases), Sloan-Kettering is at the forefront of basic and clinical research into the diagnosis, treatment, and prevention of cancer. Icahn School of Medicine at Mount Sinai is a leader in medical and scientific training, biomedical research, and patient care. The School includes 14 multidisciplinary research institutes through which faculty and students engage in research designed to improve society's ability to predict, diagnose, treat, and prevent human disease. The Research Foundation for The State University of New York is a nonprofit educational

1. *Amici* state that no counsel for a party authored this brief in whole or in part, and that no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *Amici* and their counsel made a monetary contribution intended to fund the preparation or submission of this brief. The parties have been given at least 10 days' notice of *Amici*'s intention to submit this brief and consented to its submission. The parties' written consents are being filed with this brief.

corporation that supports SUNY's academic mission and is responsible for protection and licensing of intellectual property developed by the State University of New York. The Rockefeller University is a world-renowned center for research and graduate education in the biomedical sciences, chemistry, bioinformatics and physics. Founded in 1901 by John D. Rockefeller, the Rockefeller Institute for Medical Research was the country's first institution devoted exclusively to biomedical research. Throughout Rockefeller's history, 24 of its scientists have won Nobel Prizes, 21 have won Lasker Awards, and 20 have garnered the National Medal of Science, the highest science award given by the United States. Currently, at the University, 33 Heads of Laboratory are members of the National Academy of Sciences.

Although *Amici* do not undertake research principally for use in commercial applications, patentable inventions often result from their research. The goals of *Amici* are to assure the utilization of such inventions for the common good and to grant licenses to encourage their development. Royalties received from such licenses are a vital source of revenue supporting *Amici* research.

Amici seek to bring to the Court's attention the significant, negative impact that this Court's decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), has on efforts by academic research institutions, such as *Amici*, and companies to which these institutions license technology, to transform promising research into pharmaceutical products that benefit the public. By making the payment of royalties that extend beyond the life of the patent *per se* illegal, *Brulotte* prohibits an important financial arrangement that may be preferred by both patent owner and licensee, and may deter the formation of agreements

through which commercial actors transform scientific research into pharmaceutical products that benefit society as a whole.

SUMMARY OF THE ARGUMENT

The Ninth Circuit articulated the compelling reasons for overruling *Brulotte*. In *Brulotte*, the Court reasoned that payment of patent royalties after the patent expires unlawfully "extends the patent" beyond the fixed term provided by law, but "[t]hat is not true." After a patent expires, it remains the case that "anyone can make the patented process or product without being guilty of patent infringement," and the "patent can no longer be used to exclude" anyone from making the patented product. *Kimble v. Marvel Enterprises, Inc.*, 727 F.3d 856, 866 (9th Cir. 2013), Pet. App. 24 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1018 (7th Cir. 2002) (Posner, J.)). Merely extending the period over which royalties are paid does not change that, and "[e]xpiration thus accomplishes what it is supposed to accomplish." *Kimble*, 727 F.3d at 866, Pet. App. 24. The *Brulotte* rule is therefore "counterintuitive" and does not "reflect commercial reality or basic economics." *Id.* at 857, 866 n.7, Pet. App. 2, 25. The continued adherence to a *per se* rule that rests on an economically and conceptually incorrect understanding of the post-expiration payment stream does not serve the policies underlying the patent laws, the interests of the contracting parties, or society as a whole. In his dissent in *Brulotte*, Justice Harlan recognized that as a matter of "economic substance" there is no meaningful distinction between a yearly minimum royalty payment during the patent term and royalty payments extending beyond the term based on the licensee's use of the patented product,

and that the latter arrangement consequently involved "no misuse of patent leverage." *Brulotte*, 379 U.S. at 35-36 (Harlan, J., dissenting). Permitting payment of patent royalties after the patent expires therefore is not inconsistent with constitutional or patent law.

Legitimate and important economic considerations support freely negotiated agreements that include post-expiration royalties. Although the total royalty payment still reflects only the value of the license during the patent life, allowing the royalty payment to be spread out over longer periods of time facilitates the sharing of market risk between licensor and licensee. Thus, post-patent royalties may reflect, for the parties, an economically beneficial arrangement that is not indicative of an improper exercise of "monopoly influences." *Brulotte*, 379 U.S. at 33. As explained below by reference to the types of licenses granted by *Amici* and other research institutions, there are substantial, socially beneficial, and pro-competitive reasons to accommodate such needs.

Since an agreement extending royalty payments into the post-expiration period does not extend the terms of the patent, overruling *Brulotte* will not allow patent holders to extend the patent monopoly. If a particular licensing agreement has anti-competitive terms, the Federal Trade Commission or U.S. Department of Justice can police these anti-competitive effects through enforcement actions in which the licensing agreement is assessed under standard antitrust analysis.

REASONS FOR GRANTING THE PETITION

THE COURT SHOULD OVERRULE *BRULOTTE*'S *PER SE* PROHIBITION AGAINST LICENSE AGREEMENTS THAT PROVIDE FOR PAYMENT OF PATENT ROYALTIES AFTER THE PATENT HAS EXPIRED

A. Allowing Licensees To Extend Royalty Payments Over Time Promotes The Transformation Of Medical And Scientific Research Into Potentially Life-Altering Drugs That Benefit The Public

The type of licensing engaged in by *Amici* (and other nonprofit academic and research institutions) shows not only why the *per se* rule of *Brulotte* is outmoded, but how this inflexible rule interferes with transactions that are beneficial to the licensor, the licensee, and the general public. For example, *Amici* conduct basic research in fields such as cellular biology and immunology. As part of this research, new chemical and biological compounds are identified and characterized for their effect on different types of cells or cellular responses. Some of these compounds will become useful as human therapeutics for the treatment of serious diseases.

Academic research institutions engage in preliminary research to discover the therapeutic potential of these compounds, and file patent applications to protect the institutions' rights. However, expertise, experience, and resources needed for commercial development of these compounds generally is outside the capacity and mission of these institutions, which in any event would rarely

be able to commit the necessary financial resources to advance development beyond the earliest clinical stages establishing proof of mechanism. An academic research laboratory that generates a patent for a potential new drug typically expects to grant a license on its discovery to a company with the financial resources and business expertise to undertake development, regulatory approval, and marketing of the research invention.

Research institutions and companies generally structure payments under these license agreements using a combination of payment terms, including: (i) a lump-sum license issuance fee; (ii) milestone payments to be paid upon the occurrence of events during development, *e.g.*, the start or finish of different phases of clinical trials; (iii) annual fees for the use of technology; and (iv) running royalties for a fixed period of time based on commercial sales if the resulting product is approved by the Food and Drug Administration for use by the public. Due to the difficulty and uncertainty of bringing a product to market, licensees generally prefer to delay payments as long as possible and to base those payments on commercial sales of the approved drug. Research institutions, lacking their own resources to underwrite these processes, are typically content to delay receipt of royalties as licensees progress toward achieving successful market share.

Thus, although any one of the above-noted types of compensation might theoretically substitute for another in the economic sense, they are *not* equal to most prospective licensees in the business sense. For example, a smaller company licensee may devote nearly all of its available funds to the development of a single promising drug that is a make-or-break opportunity for the company. By

contrast, a large pharmaceutical company with particular expertise and resources may be better positioned to pay royalties while pursuing development, but even large companies are unwilling to make substantial up-front license payments for what they view as high-risk projects. In both of these situations—which reflect the typical concerns of companies that engage in pharmaceutical-related licensing with institutions such as *Amici*—the licensee may strongly prefer to defer a large share of license payments from the development phase (generally within the life of the patent), in favor of royalties on eventual sales that may begin toward the end of the patent term and extend for years thereafter. A blend of these payment terms accommodates the licensee's desire both to conserve its current financial resources and shift some of the risk of failure to the licensor, which may be especially desirable if the licensee seeks continuing assistance of the licensor's scientific staff to overcome technical hurdles during development. Under these circumstances, it is economically rational and socially beneficial for parties to agree that royalties will be paid for an agreed-upon term starting with the first commercial sale, even if the royalty term extends beyond the expiration of the licensed patent.

The issue presented by this case has a substantial impact on the way in which academic research institutions and licensees will structure new license agreements and perform under existing agreements. *Amici* respectfully submit that there is no sound basis to preclude one kind of arrangement preferred by both the patent owner and the licensee that also would serve the public interest by permitting academic and research institutions the flexibility to contract with licensees they believe are best suited to translate a clinical candidate into a drug that saves lives in the hospital.

The issue presented is also of substantial importance to the public at large. Patent licensing by academic research institutions, such as *Amici*, plays an important role in the nation's economy. According to the most recent survey by the Association of University Technology Managers (AUTM), running royalties of survey respondents (comprising 193 U.S. universities, hospitals, and research institutions) increased by 30% in fiscal year 2012 over 2011, to $1.9 billion. *See* Association of University Technology Managers, *AUTM Licensing Activity Survey: FY 2012* 14 (2013). The total number of active license agreements reported by survey respondents now exceeds 40,000, and there are nearly 10,000 products on the market that originated in academic research laboratories. *See id.* at 14, 32. Congress has recognized the benefits of encouraging the grant of patent licenses by universities to small businesses, having expressed "the policy and objective of the Congress to use the patent system . . . to promote collaboration between commercial concerns and nonprofit organizations, including universities; [and] to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise . . . ." 35 U.S.C. § 200 (Bayh-Dole Act). *Brulotte* prevents universities and small businesses (as well as large companies) from devising contractual arrangements that maximize the potential benefit of the universities' technological advancements.

Amici respectfully submit that *Brulotte*'s blanket prohibition against payment of post-expiration patent royalties should be overruled in favor of a traditional rule of reason analysis under the antitrust laws. *See* Point D, *infra*. As the type of licensing engaged in by academic research institutions such as *Amici* demonstrates, post-

expiration royalties may reflect economic terms that are in the mutual best interest of the contracting parties and also in the best interest of the public. Facts such as these represent the antithesis of an improper exercise of market power by the patentee.

B. Neither The Patent Statutes Nor Their Underlying Policies Justify A *Per Se* Ban On Post-Expiration Royalties

Patent law is designed to "promote the Progress of Science and useful Arts" by securing to inventors, for limited times, the exclusive right to their discoveries. U.S. CONST., Art. I, § 8, cl. 8. Although Congress has imposed limitations on patent rights, *Brulotte* does not serve to implement them. Indeed, *Brulotte* was not based on an interpretation of the patent provisions of the Constitution or patent statutes, but rather upon the notion that post-expiration royalties necessarily violate the policy and purpose behind the limitation upon the patent term. *See* 379 U.S. at 31-32. The *Brulotte* assumption was that post-expiration royalties amounted to a leveraged use of the patent to assert "monopoly power in the post-expiration period when, as we have seen, the patent entered the public domain." *Id.* at 33; *see also id.* at 32-33 (payment of royalties after patent has expired would result in "the free market visualized for the post-expiration period . . . [being] subject to monopoly influences that have no proper place there").[2] *Brulotte* is mistaken on this central point.

---

2. It has been recognized that use of the term "monopoly" to refer to the exclusive rights conferred by a patent is not strictly correct. *See, e.g., In re Kaplan*, 789 F.2d 1574, 1578 n.3 (Fed. Cir. 1986) ("'[M]onopoly' is used in different senses in patent and antitrust law, hence its ambiguity. Because of its

Post-expiration royalties do *not* extend a patent owner's exclusive rights beyond the term of the patent. A patent grants to the owner "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States." 35 U.S.C. § 154(a)(1) (2014). This grant of exclusive rights is for a limited term. *See* 35 U.S.C. §§ 154(a)(2), 154(c)(1) (2014); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896) ("It is self-evident that on the expiration of a patent the monopoly created by it ceases to exist . . . .").

Once a patent has expired, the party that owned the patent has no legal basis to enjoin or otherwise restrain others from practicing the invention. *See, e.g., Kimble*, 727 F.3d at 866, Pet. App. 24. Thus, payment terms in a licensing agreement reflect the parties' assessment of the fair value of the use of the patent or the right to practice the invention on an exclusive basis *during* the patent term. As *Brulotte* itself recognized, the patent owner is entitled to be paid whatever amount the licensee is willing to pay. *See* 379 U.S. at 33 ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly."). An agreement to license a patent for consideration that includes royalties to be paid after the patent has expired does not extend the term of exclusive rights enjoyed by the patent owner, but instead is "a risk-shifting credit arrangement between patentee and

---

antitrust connotations and association with illegality in connection therewith, it often evokes negative reactions inappropriate to a dispassionate analysis of patent law problems."); 35 U.S.C. § 154(a)(1) (2014) (providing that patents grant the right to exclude other from taking certain actions); Howard Markey, "Why Not the Statute?," 65 J. PAT. OFF. SOC'Y 331, 33133 (1983) (advocating use of statutory language).

licensee." *Scheiber*, 293 F.3d at 1017. In other words, the licensee is paying for the anticipated value of practicing the claimed invention on an exclusive basis while the patent is in force, but spreading the payments over a longer time. *See* 10 PHILIP E. AREEDA ET AL., ANTITRUST LAW ¶ 1782c3 at 555 (3d ed. 2011) (explaining how post-expiration royalties are akin to "pure amortization"). As the Ninth Circuit stated, "'[t]he duration of the patent fixes the limit of the patentee's power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.'" *Kimble*, 727 F.3d at 866 (quoting *Scheiber*, 293 F.3d at 1017), Pet. App. 24.

C. Post-Expiration Royalties Can Provide Substantial Pro-Competitive Benefits And Further The Goals Of The Patent System

There are substantial pro-competitive business justifications for post-expiration royalties. During the initial stages of developing a new product based on new technology, both the product development and the marketing costs (as well as the uncertainty as to the value of the invention) are at their highest. *See* Note, An Economic Analysis of Royalty Terms in Patent Licenses, 67 MINN. L. REV. 1198, 1230 (1983) (hereafter "Economic Analysis") ("[U]ncertainty arises because it is difficult to predict the size of the market, how rapidly the market will grow, and the amount potential buyers will be willing to pay."). Thus, post-expiration royalties allow a licensee to delay the payment of license fees until it is in a better position to pay, opening the door to a potentially larger universe of prospective licensees.

Flexible royalty provisions also permit the parties to balance and allocate risk. When the predominant consideration for a license is fixed payments not based on sales—such as up-front payments and periodic license maintenance fees—the licensee bears the risk of product failure because its license payments are fixed. A royalty-based payment system, by contrast, allows the licensor and licensee to share this risk. Providing for a lower royalty rate, typically in exchange for a longer royalty term (that may include post-expiration), further reduces the risk to the licensee. In his dissent in *Brulotte*, Justice Harlan recognized this possible motivation for structuring a licensing agreement in this way. *See* 379 U.S. at 37-38 (Harlan, J., dissenting) ("If the farmer has no fixed estimate of his use requirements he may have good business reasons entirely unconnected with 'patent leverage' for wanting payments tied to use, and may indeed be willing to pay more in the long run to obtain such an arrangement."). As one commentator noted, the productive gains accruing to small innovators from risk-reducing royalty terms tend to promote competition in the marketplace because large firms have greater resources to devote to development and can better shelter themselves from risk. *See* Economic Analysis, 67 MINN. L. REV. at 1233.

Given the nature of their missions, *Amici* and other academic institutions frequently grant licenses for early-stage technology that has not been fully developed and that is, as yet, of unknown or speculative commercial value. In such cases, their licensees face a particular risk that no viable product or process will be developed during the patent term. This risk is particularly acute with respect to pharmaceutical innovations, where development

costs and failure rates are very high and many years of development, clinical trials, and regulatory review are required before the product ever reaches the commercial market. In these circumstances, the institution has no economic or market power to coerce monopolistic license terms, and the prospective licensee has strong business reasons for preferring to defer royalty payments or pay them at a lower rate over a longer period of time. The goal of the patent system is served by allowing such parties to negotiate freely the license terms that make sense to them in order to maximize the development of desirable (even life-saving) products and processes. The *per se* rule of *Brulotte* disserves this goal and serves no comparable goal of its own.

D. Use Of Post-Expiration Royalties For Anti-Competitive Purposes Can Be Policed By Application Of Antitrust Principles

The demise of *Brulotte* would leave the task of policing anti-competitive licensing agreements where it belongs: with the federal antitrust laws. Agreements that have been shaped to yield true monopolistic effects and provide for payment of post-expiration royalties would still be proscribed by the antitrust laws under a rule of reason analysis, consistent with the approach of this Court, the enforcement agencies, and the lower courts. *See Federal Trade Commission v. Actavis, Inc.*, 133 S. Ct. 2223, 2231 (2013) ("[T]his Court has indicated that patent and antitrust policies are both relevant in determining the 'scope of the patent monopoly' . . . that is conferred by a patent."); U.S. Department of Justice & U.S. Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property § 2.0 (1995) (hereafter Antitrust

Guidelines) ("[F]or the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property."); *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) (applying antitrust-based rule of reason analysis where practice alleged to constitute patent misuse is "neither *per se* misuse" under the case law nor "specifically excluded" by statute from being considered misuse); *USM Corp. v. SPS Techs.*, 694 F.2d 505, 512 (7th Cir. 1982) ("Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty."). Indeed, the principles for evaluating license agreements under the rule of reason are well-defined. *See* Antitrust Guidelines § 4.

In some types of cases, the antitrust laws impose a more stringent *per se* analysis. Under antitrust law, "[p]er se treatment is appropriate '[o]nce experience with a particular kind of restraint enables the Court to predict with confidence that the rule of reason will condemn it.'" *State Oil v. Khan*, 522 U.S. 3, 10 (1997) (quoting *Arizona v. Maricopa County Medical Soc'y*, 457 U.S. 332, 344 (1982)); *see also Broadcast Music, Inc. v. CBS*, 441 U.S. 1, 9 (1979) ("[I]t is only after considerable experience with certain business relationships that courts classify them as *per se* violations ....'") (quoting *United States v. Topco Associates, Inc.*, 405 U.S. 596, 607-08 (1972)). The judicial experience with post-expiration royalties has not generated an evidentiary basis that would justify a *per se* prohibition.

More recently, the trend has been to look to economic realities, rather than *per se* rules, to identify anti-

competitive conduct. In 1988, "Congress amended the Patent Code to eliminate th[e] presumption that [patent-equals-market-power] in the patent misuse context." *Illinois Tool Works Inc. v. Independent Ink Inc.*, 547 U.S. 28, 41 (2006). The amended statute provides that a tying arrangement in which licensing of a patented product is conditioned on the licensing or purchase of another product shall not constitute patent misuse "unless *in view of the circumstances*, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned." 35 U.S.C. § 271(d)(5) (emphasis added); *see also Illinois Tool Works*, 547 U.S. at 41-42 (describing 1988 amendment of Patent Code).

In *Illinois Tool Works*, this Court extended Congress's de-linking of the patent-equals-market-power presumption to the antitrust context. The Court framed the question as "whether the presumption of market power in a patented product should survive as a matter of antitrust law despite its demise in patent law," and held that "the mere fact that a tying product is patented does not support such a presumption." *Id.* at 31. Rather, based on "the congressional judgment reflected in the 1988 amendment," "tying arrangements involving patented products . . . must be supported by proof of power in the relevant market rather than by a mere presumption thereof." *Illinois Tool Works*, 547 U.S. at 42-43. Just last Term, in *Federal Trade Commission v. Actavis*, this Court held that reverse payment settlements in patent litigation should be evaluated under a rule of reason standard, rather than considered presumptively unlawful as the FTC had urged. *See* 133 S. Ct. at 2237. In so doing, the Court reiterated that "abandonment of the 'rule of

reason' in favor of presumptive rules (or a 'quick-look' approach) is appropriate only where 'an observer with even a rudimentary understanding of economics could conclude that the arrangements in question would have an anticompetitive effect on customers and markets.'" *Id.* (quoting *California Dental Assn. v. FTC*, 526 U.S. 756, 770 (1999)). That cannot be said of the kind of licensing agreements at issue here.

If *per se* treatment of post-expiration royalties is not required under the antitrust laws, it is equally inappropriate under the doctrine of patent misuse. From its inception, the goal of the misuse doctrine has been the same as that of the antitrust laws—promotion of competition. *See, e.g., Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27, 33-34 (1931) (affirming dismissal of patent infringement suit and noting that the plaintiff's conduct was "analogous to the use of a patent as an instrument for restraining commerce which was condemned, under the Sherman Anti-Trust Law"). Thus, for example, there is "no offense to 'public policy' from a patent-based tying arrangement that antitrust law regards as competitively harmless or even as procompetitive." 10 Areeda ¶ 1781d at 521; *see also* Robert B. Anderwelt, *Competition Policy and the Patent Misuse Doctrine*, 25 Pat. Trademark & Copyright J. 41, 42 (Nov. 11, 1982) (speaking as Chief of the Intellectual Property Section, Antitrust Division, U.S. Department of Justice) ("[W]e should reject improper *per se* misuse rules and prohibit conduct on economic grounds only when economic analysis demonstrates the conduct to be anticompetitive."). Indeed, the relationships between patent-owning academic and research institutions like *Amici* and their licensees illustrate the fallacy of *Brulotte*'s assumptions about market power: *Amici* do not themselves

develop drugs and do not have monopolistic leverage over the for-profit companies they rely on to transform their discoveries into commercially viable products.

This case presents a compelling opportunity for the Court to reconsider *Brulotte* and hold that freely negotiated contracts allowing payment of post-expiration royalties should be subject to conventional antitrust analysis under the rule of reason, instead of the inflexible prohibition of *Brulotte*. Applying well-developed antitrust principles to assess whether a particular licensing agreement constitutes patent misuse will thus rest on modern economic understanding of post-expiration royalty payments rather than *Brulotte*'s outdated assumptions.

E. The Ninth Circuit's Expansive Reading Of The *Brulotte* Rule To Invalidate Complex Licenses That Do Not Separately Account For The Value Of Patent Rights Further Constrains The Commercialization Of Important Laboratory Discoveries

The Court of Appeals held—following its Circuit precedent—that licensee Marvel was not required to pay anything to the licensors after the patent expired because the agreement between them did not provide for a separate and discounted rate for non-patent royalties paid after the licensed patent expired. 727 F.3d at 857, 864-65, Pet. App. 2, 20-21. Stated differently, because the contracting parties did not provide for a (likely artificial) division of value between the licensed patent and the non-patent elements of their transaction, *see id.*, the licensee was relieved of making *any* payments after the patent expired, since there was no "clear indication that

the royalty was in no way subject to patent leverage." *Id.* at 865, Pet. App. 21. This expansive reading of *Brulotte* imposes another unjustified constraint on the types of licenses that *Amici* often grant, which may involve, in addition to patent rights, non-patent elements such as transfer of biological materials that have intrinsic value as personal property, provision of its scientists' know-how, or an offer of patients' data generated through clinical trials, to name a few.

The Ninth Circuit's interpretation of *Brulotte* requires institutions to assign separate, discounted values to the non-patent rights in complicated or "hybrid" transactions like these—which are very much the norm for institutions like *Amici*—even though the discounted value may not reflect the true value of the non-patent rights, or the patent and non-patent rights may be intertwined. For example, it may be that the final form of the product that obtains FDA approval may not be known, because several candidates may be included in the package of rights, materials, and (non-patent) know-how transferred. It is also not uncommon for therapies to have non-patent components as well as patent components. In addition, the licensor may create new intellectual property based on the licensed discovery. Finally, in the course of development of a licensed therapy or device, the licensee may generate its own patents that provide added protection to the eventual commercial product. Thus, while the contracting parties can and must agree on the basic economic terms of their relationship, attempts to ascribe separate values to different elements in the bundle of rights would be clumsy at best and arbitrary at worst.

There is no market benefit in compelling sophisticated parties to complicated transactions—which by their nature have substantial risks of failure and economic rewards that will be realized (if at all) years in the future—to assign arbitrary values to the mix of rights being licensed, for the sole purpose of providing a "clear indication that the royalty was in no way subject to patent leverage," 727 F.3d at 865, Pet. App. 21, as apparently required under the Ninth Circuit's interpretation of *Brulotte*. If the logic of *Brulotte* compels such a rule, the constraint it places on socially beneficial transactions between sophisticated entities is another reason to overrule the case.

CONCLUSION

For the reasons stated above, *Amici* respectfully request that the Court grant the Petition.

Respectfully submitted,

HARVEY M. STONE
Counsel of Record
JEFFREY M. EILENDER
ELIZABETH WOLSTEIN
SCHLAM STONE & DOLAN LLP
26 Broadway
New York, NY 10004
(212) 344-5400
hms@schlamstone.com

Attorneys for Amici Curiae

Dated: February 24, 2014

JOINT APPENDIX

Supreme Court, U.S.
FILED
JAN 26 2015
OFFICE OF THE CLERK

No. 13-720

In The Supreme Court of the United States

STEPHEN KIMBLE, *et al.*,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

JOINT APPENDIX

ROMAN MELNIK*
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN & WEATHERWAX LLP
11400 W. Olympic Blvd., Ste. 400
Los Angeles, CA 90064
(310) 307-4500
melnik@glwllp.com

ANTONIO R. DURANDO
6902 N. Table Mountain Road
Tucson, AZ 85718
(520) 243-3383

Counsel for Petitioners

SETH P. WAXMAN*
PAUL R.Q. WOLFSON
MATTHEW GUARNIERI
THOMAS G. SAUNDERS
DANIEL AGUILAR
WILMER CUTLER PICKERING HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com

Counsel for Respondent

**Counsel of Record*

Petition For Certiorari Filed December 13, 2013
Certiorari Granted December 12, 2014

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

TABLE OF CONTENTS

Page

Relevant Docket Entries from the Superior Court of the State of Arizona, No. C20083621 1

Relevant Docket Entries from the United States District Court for the District of Arizona, No. 4:08-cv-00372-DCB 2

Relevant Docket Entries from the United States Court of Appeals for the Ninth Circuit, No. 11-15605 14

Relevant Pages from Ninth Circuit Court of Appeals Appellee's Supplemental Excerpts of Record, No. 11-15605 16

The following opinions and orders have been omitted in the printing of this Joint Appendix because they appear on the following pages in the appendix to the Petition for Writ of Certiorari:

United States Court of Appeals for the Ninth Circuit, No. 11-15605, Opinion, Filed July 16, 2013 ..... App. 1

United States District Court, District of Arizona, No. 4:08-cv-00372-DCB, Opinion and Order, Filed March 2, 2010 ..... App. 27

Relevant Docket Entries from the Superior Court of the State of Arizona, No. C20083621

Date Filed	Docket Text
5/28/2008	Petition & Complaint
6/27/2008	Notice to Adverse Party of Removal to Federal Court

Relevant Docket Entries from the United States District Court for the District of Arizona, No. 4:08-cv-00372-DCB

Date Filed	No.	Docket Text
06/27/2008	1	NOTICE OF REMOVAL from Pima County Superior Court, case number C20083621 Filing fee received: $ 350.00, receipt number 097000000000002041321, filed by Marvel Enterprises, Inc.. (Attachments: # 1 Index – Exhibits, # 2 Civil Cover Sheet, # 3 Supplement Supplemental Civil Cover Sheet, # 4 Corporate Disclosure Statement) (Jacobs, Andrew) (Entered: 06/27/2008)
08/04/2008	12	ANSWER to Complaint, COUNTERCLAIM against Robert Grabb, Stephen Kimble by Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 08/04/2008)
09/19/2008	16	*Answer to Counterclaim* ANSWER to 12 Counterclaim by Robert Grabb. (Grabb, Robert) (Entered: 09/19/2008)
11/18/2008	23	AMENDED COMPLAINT against Marvel Enterprises, Inc. filed by Robert Grabb, Stephen Kimble.(JEMB,) (Entered: 11/18/2008)
12/05/2008	25	MOTION to Dismiss Counts/ Claims: II, III, IV by Marvel Enterprises, Inc.. (Attachments:

		# 1 Christiansen Declaration, # 2 Exhibit 1 to Christiansen Declaration, # 3 Exhibit 2 to Christiansen Declaration) (Fleischer, David) (Entered: 12/05/2008)
01/12/2009	27	STIPULATION *Stipulation of Dismissal of Counts II, III and IV of the First Amended Complaint* by Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 01/12/2009)
01/16/2009	29	ORDER granting 27 Stipulation; granting 25 Motion to Dismiss Counts.. Signed by Judge David C Bury on 1/15/09. (DNO,) (Entered: 01/16/2009)
01/26/2009	33	ANSWER to 23 Amended Complaint, COUNTERCLAIM against Robert Grabb, Stephen Kimble by Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 01/26/2009)
02/11/2009	34	ANSWER to 33 Answer to Amended Complaint, Counterclaim by Robert Grabb (an individual). (Grabb, Robert) (Entered: 02/11/2009)
05/18/2009	44	AMENDED ANSWER to *Amended Counterclaims* by Robert Grabb (an individual). (Grabb, Robert) (Entered: 05/18/2009)
06/15/2009	47	First MOTION for Summary Judgment *re: 2nd Counterclaim*

		by Robert Grabb (an individual). (Attachments: # 1 Statement of Facts, # 2 Exhibit) (Grabb, Robert) (Entered: 06/12/2009)
06/29/2009	48	Second MOTION for Partial Summary Judgment Counterclaim #4 by Robert Grabb (an individual). (Attachments: # 1 Statement of Facts, # 2 Exhibit 1, # 3 Exhibit 2, # 4 Exhibit 3, # 5 Exhibit 4, # 6 Exhibit 5, # 7 Exhibit 6, # 8 Exhibit 7, #9 Exhibit 8) (Grabb, Robert) (Entered: 06/29/2009)
07/01/2009	49	Third MOTION for Partial Summary Judgment First Counterclaim by Robert Grabb (an individual). (Attachments: # 1 Statement of Facts, # 2 Exhibit Exhibit 1, # 3 Exhibit Exhibit 2, # 4 Exhibit Exhibit 3, # 5 Exhibit Exhibit 4, # 6 Exhibit Exhibit 5, # 7 Exhibit Exhibit 6, # 8 Exhibit Exhibit 7) (Grabb, Robert) (Entered: 07/01/2009)
07/06/2009	50	Fourth MOTION for Partial Summary Judgment Third counterclaim by Robert Grabb (an individual). (Attachments: # 1 Statement of Facts, # 2 Exhibit Exhibit 1, # 3 Exhibit Exhibit 2, # 4 Exhibit Exhibit 3, # 5 Exhibit Exhibit 4, # 6 Exhibit Exhibit 5, # 7 Exhibit Exhibit 6, # 8 Exhibit

		Exhibit 7) (Grabb, Robert) (Entered: 07/06/2009)
07/08/2009	51	Fifth MOTION for Partial Summary Judgment Definition of "net product sales" by Robert Grabb. (Attachments: # 1 Statement of Facts, # 2 Exhibit 1, # 3 Exhibit 2, # 4 Exhibit 3, # 5 Exhibit 4, # 6 Exhibit 5, # 7 Exhibit 6, # 8 Exhibit 7) (Grabb, Robert) (Entered: 07/08/2009)
07/15/2009	54	MOTION for Summary Judgment *Defendant's Motion for Summary Judgment* by Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 07/15/2009)
07/15/2009	55	STATEMENT of Material Facts in Support re 54 MOTION for Summary Judgment *Defendant's Motion for Summary Judgment* by Defendant Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 07/15/2009)
08/10/2009	59	RESPONSE in Opposition re 51 Fifth MOTION for Partial Summary Judgment Definition of "net product sales", 49 Third MOTION for Partial Summary Judgment First Counterclaim, 47 First MOTION for Summary Judgment *re: 2nd Counterclaim*, 48 Second MOTION for Partial Summary Judgment Counterclaim #4, 50

		Fourth MOTION for Partial Summary Judgment Third counterclaim filed by Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 08/10/2009)
08/10/2009	60	STATEMENT of Defendant's Statement of Facts in Opposition to Plaintiffs' Motions for Summary Judgment re 59 Response in Opposition to Motion, by Defendant Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 08/10/2009)
08/10/2009	61	DECLARATION of Declaration of Kenneth P. West in opposition to Plaintiffs' Motions for Summary Judgment re 59 Response in Opposition to Motion, by Defendant Marvel Enterprises, Inc. filed by Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 08/10/2009)
08/10/2009	62	DECLARATION of Jason T. Christiansen in Opposition to Plaintiffs' Motions for Summary Judgment re 59 Response in Opposition to Motion, by Defendant Marvel Enterprises, Inc. filed by Marvel Enterprises, Inc.. (Attachments: # 1 Exhibit 1, # 2 Exhibit 2, # 3 Exhibit 3, # 4 Exhibit 4, # 5 Exhibit 5, # 6 Exhibit 6, # 7 Exhibit 7, # 8 Exhibit 8, # 9 Exhibit 9, # 10 Exhibit 10, # 11 Exhibit 11, # 12

		Exhibit 12, # 13 Exhibit 13) (Fleischer, David) (Entered: 08/10/2009)
08/17/2009	63	RESPONSE to Motion re 54 MOTION for Summary Judgment *Defendant's Motion for Summary Judgment* filed by Robert Grabb. (Attachments: # 1 Reply to Statement of Facts) (Grabb, Robert) (Entered: 08/17/2009)
09/04/2009	64	REPLY in Support re 54 MOTION for Summary Judgment *Defendant's Motion for Summary Judgment* filed by Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 09/04/2009)
09/04/2009	65	DECLARATION of September 2, 2009 Declaration of Jason Christiansen in Support of Defendant's Motion for Summary Judgment re 54 MOTION for Summary Judgment *Defendant's Motion for Summary Judgment* by Defendant Marvel Enterprises, Inc., Counter Claimant Marvel Enterprises, Inc. filed by Marvel Enterprises, Inc.. (Attachments: # 1 Exhibit 7, # 2 Exhibit 8) (Fleischer, David) (Entered: 09/04/2009)
09/04/2009	66	STATEMENT of Additional Statement of Material Facts in Support of Defendant's Motion for Summary Judgment by Defendant

		Marvel Enterprises, Inc., Counter Claimant Marvel Enterprises, Inc.. (Fleischer, David) (Entered: 09/04/2009)
09/14/2009	67	REPLY to Response to Motion re 49 Third MOTION for Partial Summary Judgment First Counterclaim, 47 First MOTION for Summary Judgment *re: 2nd Counterclaim*, 51 Fifth MOTION for Partial Summary Judgment Definition of "net product sales", 48 Second MOTION for Partial Summary Judgment Counterclaim #4, 50 Fourth MOTION for Partial Summary Judgment Third counterclaim filed by Robert Grabb. (Attachments: # 1 Statement of Facts, # 2 Exhibit 1, # 3 Exhibit 2, #4 Exhibit 3, # 5 Exhibit 4, # 6 Exhibit 5, # 7 Exhibit 6, # 8 Exhibit 7, # 9 Exhibit 8, # 10 Exhibit 9, # 11 Exhibit 10, # 12 Exhibit 11, # 13 Exhibit 12, # 14 Exhibit 13, #15 Exhibit 14, # 16 Exhibit 15, # 17 Exhibit 16, # 18 Exhibit 17, # 19 Exhibit 18, #20 Exhibit 19, # 21 Exhibit 20, # 22 Exhibit 21, # 23 Exhibit 22, # 24 Exhibit 23, #25 Exhibit 24, # 26 Exhibit 25, # 27 Exhibit 26, # 28 Exhibit 27, # 29 Exhibit 28, #30 Exhibit 29, # 31 Exhibit 30, # 32 Exhibit 31, # 33 Exhibit 32, # 34 Exhibit 33, #35 Exhibit 34, # 36 Exhibit 35,

		# 37 Exhibit 36) (Grabb, Robert) (Entered: 09/14/2009)
09/17/2009	68	ORDER re 48 Second MOTION for Partial Summary Judgment Counterclaim #4, 54 MOTION for Summary Judgment *Defendant's Motion for Summary Judgment*, 49 Third MOTION for Partial Summary Judgment First Counterclaim, 47 First MOTION for Summary Judgment *re: 2nd Counterclaim*, 51 Fifth MOTION for Partial Summary Judgment Definition of "net product sales", 50 Fourth MOTION for Partial Summary Judgment Third counterclaim : Motion Hearing set for 11/6/2009 at 10:00AM before Magistrate Judge D Thomas Ferraro. Signed by Magistrate Judge D Thomas Ferraro on 9/17/09. (CLJ,) (Entered: 09/17/2009)
12/02/2009	77	REPORT AND RECOMMENDATION recommending the District Court: grant 51 Fifth MOTION for Partial Summary Judgment Definition of "net product sales", deny 49 Third MOTION for Partial Summary Judgment First Counterclaim, deny 47 First MOTION for Summary Judgment *2nd Counterclaim*, deny 48 Second MOTION for Partial Summary

		Judgment Counterclaim #4, deny 50 Fourth MOTION for Partial Summary Judgment Third counterclaim, grant 54 MOTION for Summary Judgment. All written objections due within 14 days of being served with a copy of this Report and Recommendation and should include the following case number: CV 08-372-TUC-DCB. Signed by Magistrate Judge D Thomas Ferraro on 12/2/09. (SSU,) (Entered: 12/02/2009)
12/16/2009	78	TRANSCRIPT of Proceedings re: MOTION HEARING held on 11/6/09 before Judge D Thomas Ferraro. Transcribed by: Dianne Davenport. Transcript may be viewed at the court public terminal or purchased through the Court Reporter/Transcriber before the deadline for Release of Transcript Restriction. After that date it may be obtained through PACER. Redaction Request due 1/6/2010. Redacted Transcript Deadline set for 1/19/2010. Release of Transcript Restriction set for 3/16/2010. (BJW,) (Entered: 12/16/2009)
12/16/2009	80	OBJECTION to 77 Report and Recommendations filed by Robert Grabb. (Grabb, Robert) (Entered: 12/16/2009)

12/16/2009	81	OBJECTION *to 77 Report and Recommendation* by Defendant Marvel Enterprises, Inc.. (Christiansen, Jason) (Entered: 12/16/2009)
12/30/2009	82	Reply re 81 Objection by Plaintiff Robert Grabb. (Grabb, Robert) (Entered: 12/30/2009)
12/30/2009	83	RESPONSE re 80 Objection to Report and Recommendations by Defendant Marvel Enterprises, Inc.. (Christiansen, Jason) (Entered: 12/30/2009)
03/02/2010	85	ORDER adopting 77 Report and Recommendations; denying 47 Motion for Summary Judgment; denying 48 Motion for Partial Summary Judgment; denying 49 Motion for Partial Summary Judgment; denying 50 Motion for Partial Summary Judgment; granting 51 Motion for Partial Summary Judgment; granting 54 Motion for Summary Judgment. Withdrawing the reference from Magistrate Judge Ferraro; matter to be tried by Judge Bury. Joint pretrial order due 3/26/10. Signed by Judge David C Bury on 3/1/10. See attached pdf for complete information. (KMF) (Entered: 03/02/2010)

02/11/2011	117	STIPULATION of Dismissal by Marvel Enterprises Incorporated. (Fleischer, David) (Entered: 02/11/2011)
02/15/2011	122	ORDER granting 117 Stipulation of Dismissal, all claims remaining in the action after 09/22/10 are dism with prejudice without atty fees and or costs to any party. In accordance with Dismissal Stip, parties have waived all appeals from any orders entered in this action, except the rights of Kimble and Grabb to appeal the Courts 03/02/10 Order (Doc. 85). The Courts March 2, 2010 Order (Doc. 85) with respect to Marvels motion for summary judgment (Doc. 54) shall be deemed final. This court retains jurisdiction over Marvel, Kimble, and Grabb for purpose of enforcing the Dismissal Stipulation.***SEE ATTACHED PDF FOR FURTHER INFORMATION***. Signed by Judge David C Bury on 02/14/11. (LMF) (Entered: 02/15/2011)
03/15/2011	124	AMENDED NOTICE OF APPEAL to 9th Circuit by Robert Grabb (an individual). (Attachments: # 1 Appeal Information Docketing Statement, # 2 Exhibit Service List, # 3 Exhibit Document 85,

		# 4 Exhibit Document 122) (Grabb, Robert) (Entered: 03/15/2011)
03/15/2011	125	9th Circuit Court of Appeals Case Number 11-15605 for 123 Notice of Appeal. (BAC) (Entered: 03/15/2011)

Relevant Docket Entries from the United States Court of Appeals for the Ninth Circuit, No. 11-15605

Date Filed	No.	Docket Text
06/20/2011	11	Submitted (ECF) Opening brief for review. Submitted by Appellants Robert Michael Grabb and Stephen Kimble. Date of service: 06/20/2011. [7791376] (RMG) [Entered: 06/20/2011 02:30 PM]
07/22/2011	15	Submitted (ECF) Answering brief for review. Submitted by Appellee Marvel Enterprises Inc.. Date of service: 07/22/2011. [7830104] – [COURT UPDATE: Replaced PDF of brief (now includes Statement of Related Cases). Resent NDA. 07/26/2011 by DB] (DF) [Entered: 07/22/2011 01:12 PM]
08/05/2011	19	Submitted (ECF) Reply brief for review. Submitted by Appellants Robert Michael Grabb and Stephen Kimble. Date of service: 08/05/2011. [7845674] (RMG) [Entered: 08/05/2011 10:58 AM]
12/05/2012	36	ARGUED AND SUBMITTED TO Judges DIARMUID F. O'SCANNLAIN, SIDNEY R. THOMAS and CONSUELO M. CALLAHAN. [8426428] [11-15605] (AT) [Entered: 12/05/2012 12:36 PM]

07/16/2013	43	FILED OPINION (DIARMUID F. O'SCANNLAIN, SIDNEY R. THOMAS and CONSUELO M. CALLAHAN) AFFIRMED. Judge: CMC Authoring. FILED AND ENTERED JUDGMENT. [8704928] (RP) [Entered: 07/16/2013 07:29 AM]
08/08/2013	44	MANDATE ISSUED.(DFO, SRT and CMC) [8735862] (MT) [Entered: 08/08/2013 11:33 AM]

Relevant Pages from Ninth Circuit Court of Appeals Appellee's Supplemental Excerpts of Record, No. 11-15605

EXHIBIT
Kimble D
4-23-09 /s/ [Illegible]

[SER 12] **AGREEMENT**

AGREEMENT (the "Agreement") dated as of September 21, 2001 by and among Stephen E. Kimble ("Kimble") and Robert Grabb (collectively, the "Patent Holders") and Marvel Enterprises, Inc. (formerly known as Toy Biz, Inc.), a Delaware corporation ("Marvel").

Preliminary Statement

A. In an action (the "Action") entitled *Stephen E. Kimble v. Toy Biz, Inc.*, Case No. CV-97-557-TUC-RCC, commenced in the United States District Court for the District of Arizona (the "District Court"), a judgment was entered on October 10, 2000 (the "Judgment") in favor of Kimble and against Marvel as follows:

> **IT IS ORDERED AND ADJUDGED** that judgment be entered in favor of the Plaintiff Stephen E. Kimble and against Defendant Toy Biz., And find the full damages to be 3.5% of net product sales, past present and future excluding refill royalties.

On December 26, 2000 an order (the "Order") of the District Court was entered denying Marvel's post-trial motions under Rules 50 and 59 of the Federal Rules of Civil Procedure.

B. Marvel filed a notice of appeal dated January 18, 2001 to the United States Court of Appeals for the Ninth Circuit from the Judgment and Order which was filed in the District Court on January 19, 2001. Kimble filed a notice of appeal dated February 2, 2001 to the United States Circuit Court for the Ninth Circuit from, *inter alia*, the Judgment and the order dated February 17, 2000 dismissing his patent infringement claim in the Action which was filed in the District Court on February 2, 2001. The appeals of Marvel and Kimble are hereinafter referred to as the "Appeals."

[SER 13] C. An order dated February 9, 2001 was entered in the District Court on February 12, 2001 granting the joint motion of Kimble and Marvel for the approval of the supersedeas bond of Old Republic Insurance Company in the amount of $807,333.53 filed in the District Court on February 9, 2001 (the "Bond") and staying execution of the Judgment pending Marvel's appeal.

D. The Patent Holders are the owners of all right, title and interest in the Letters Patent of the United States of America No. 5,072,856 (the "Patent").

E. Kimble and Marvel wish to avoid the further expense and distraction of litigation.

NOW, THEREFORE, for and in consideration of the covenants herein set forth and other good and valuable consideration, the receipt and sufficiency of

which is hereby acknowledged, the parties hereby agree as follows:

1. Simultaneously with the execution and delivery of this Agreement, Kimble and Marvel shall cause their attorneys of record in the Action to execute and file a stipulation in the form of exhibit A withdrawing the Appeals with prejudice and a stipulation in the form of exhibit B vacating the Judgment and dismissing the Action with prejudice.

2. Upon execution and delivery of this Agreement, Kimble agrees forthwith to execute such documents and take such action as Marvel may reasonably request to effectuate the release of the Bond.

3. Marvel agrees to purchase from the Patent Holders and the Patent Holders agree to sell to Marvel the Patent which will be evidenced by an instrument of [SER 14] assignment in the form of exhibit C hereto. The purchase price for the Patent shall be payable to the Patent Holders as follows:

a. $516,214.62 upon execution and delivery of this Agreement; and

b. 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the

Web Blaster product that was the subject of the Action and to which the Judgment refers.

4. Within 45 days after the calendar quarter ending September 30, 2001 and within 45 days after the end of each calendar quarter thereafter in which product sales are made Marvel will (i) submit to Kimble (on behalf of the Patent Holders) a report (the "Quarterly Royalty Report") covering net product sales made during such quarter which shall include the number of units of products sold, the price(s) at which such products were sold and a calculation of net product sales made during such quarter and (ii) remit payment to the Patent Holders of the amount shown as due in such Quarterly Royalty Report. Marvel hereby represents and warrants that net product sales of $14,169.48 were made during the period January 1, 2001 to date and Marvel agrees to remit to the Patent Holders $425.08 in respect of such sales upon execution and delivery of this Agreement. All payments shall be in United States Dollars and if based on transactions in another currency shall be calculated using the exchange rate in effect on the last day of the quarter for which the payment is made. Marvel will pay the Patent Holders interest on overdue payments at the lower of an annual rate of 2% over the [SER 15] prevailing prime interest rate and the rate of interest payable on judgments in the State of Arizona in effect on the date the payment was originally due.

5. A certified public accountant designated by Kimble (on behalf of the Patent Holders) will have

the right, on no less than two weeks notice and no more frequently than once during any 12 month period, during regular business hours, to examine the financial records of Marvel pertaining to net product sales to the extent necessary to confirm the accuracy of the information reported on any Quarterly Royalty Report(s). If no objection to a Quarterly Royalty Report is made by Kimble (on behalf of the Patent Holders) within 120 days after the calendar year to which such report pertains, such Quarterly Royalty Report will be deemed final and conclusive as between the parties. The Patent Holders shall maintain in strict confidence the information set forth in each Quarterly Royalty Report delivered hereunder and any information furnished in connection with any examination of Marvel's financial records pertaining thereto.

6. The parties hereto agree that the terms of this Agreement shall be kept confidential and shall not be disclosed, directly or indirectly, to any third party at any time, other than to the parties' lawyers, accountants, tax preparers and auditors, or as otherwise necessitated by the process of law (including disclosure under applicable securities laws, rules and regulations).

7. The parties agree to take such action and to execute and deliver such documents as may reasonably be necessary to effectuate the purposes of this Agreement.

[SER 16] 8. Nothing in this Agreement shall be construed or interpreted to constitute an admission of liability on Marvel's part in respect of any claim made in the Action.

9. Except for the obligations undertaken by Marvel in this Agreement and except for those obligations under the alleged verbal agreement that was the subject of the Action, the Patent Holders hereby release and discharge Marvel and its directors, officers, shareholders, employees, agents and affiliates (collectively "Releasee"), and Releasee's successors and assigns from all actions, causes of action, suits, debts, sums of money, accounts, covenants, contracts, controversies, agreements, promises, damages, claims and demands whatsoever, in law, admiralty or equity, which against Releasee, the Patent Holders or the Patent Holders' successors and assigns ever had, now have or hereafter can, shall or may, have for, upon, or by reason of any matter, cause or thing whatsoever from the beginning of the world to the date of this Agreement.

10. The parties warrant that no representations have been made to any of them on behalf of any other party to influence or induce the execution of this Agreement and that they have fully read and executed this Agreement upon independent advice of counsel of their own choosing.

11. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their

respective heirs, administrators, executors, successors and assigns.

12. This Agreement contains the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous arrangements or understandings with respect thereto.

[SER 17] 16. If any provision of this Agreement is held invalid, the invalidity thereof shall not affect any other provision of this Agreement.

17. In any action brought to enforce this Agreement, the prevailing party shall be entitled to an award of reasonable attorney's fees and costs.

18. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which taken together shall constitute one agreement.

/s/ Stephen E. Kimble
Stephen E. Kimble

/s/ Robert Grabb
Robert Grabb

MARVEL ENTERPRISES, INC.

By: _____

Its: _____

[SER 18] 13. This Agreement may not be amended, modified or supplemented in any respect except by a writing executed by the parties hereto.

14. This Agreement shall be construed in accordance with the laws of the State of New York applicable to agreements made and to be performed therein.

15. This Agreement will be construed to have been drafted by both parties and shall not be construed or interpreted against any one party.

16. If any provision of this Agreement is held invalid, the invalidity thereof shall not affect any other provision of this Agreement.

17. In any action brought to enforce this Agreement, the prevailing party shall be entitled to an award of reasonable attorney's fees and costs.

18. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which taken together shall constitute one agreement.

/s/ _____
Stephen E. Kimble

/s/ _____
Robert Grabb

MARVEL ENTERPRISES, INC.

By: /s/ Allen S. Lipson

Its: /s/ Exec. VP

[SER 21] ASSIGNMENT

For good and valuable consideration, the receipt of which is hereby acknowledged, we, Stephen Kimble and Robert Grabb, do hereby assign and transfer unto Marvel Enterprises, Inc., of the State of New York, in the United States of America, and unto its successors, assigns and legal representatives, the entire right, title and, interest to a certain invention entitled Toy Web-Shooting Glove, described, illustrated and claimed in Letters Patent of the United States of America No. 5,072,856, issued to Stephen Kimble on December 17, 1991 and partially assigned to Robert Grabb on February 25, 1997, together with the entire right, title and interest in and to said Letters Patent, and any division, extension, continuation, reissue, renewals and re-examinations thereof.

We also hereby assign and transfer unto Marvel Enterprises, Inc., the entire right, title and interest in and to said inventions and in and to applications for Letters Patent therefor in all countries foreign to the United States of America, including all rights under any and all international conventions and treaties in respect of said inventions and said applications for Letters Patent in foreign countries; I further authorize Marvel Enterprise, Inc., to apply for Letters Patent in foreign countries directly in its own name, and to claim the priority of the filing date of said application for Letters Patent of the United States of America under the provisions of any and all international conventions and treaties.

[SER 22] We hereby authorize and request the Commissioner of Patents of the United States of America to issue Letters Patent upon the aforesaid application, division, extension, continuation or reissue, to Marvel Enterprises, Inc. for the sole use and behalf of Marvel Enterprises, Inc., and its successors, assigns and legal representatives, to the full end of the term for which said Letters Patent may be granted, the same as they would have been held and enjoyed by Stephen Kimble and Robert Grabb had this assignment not been made, and we hereby authorize and request the equivalent authorities in foreign countries to issue the patents of their respective countries to Marvel Enterprises, Inc.

We agree that, when requested, we will, without charge to Marvel Enterprises, Inc., but at its expense, sign all papers, take all rightful oaths, and do all acts which may be necessary, desirable or convenient for securing and/or maintaining patents for said invention in any and all countries and for vesting title thereto in Marvel Enterprises, Inc., and its successors, assigns and legal representatives or nominees.

We covenant with said Marvel Enterprises, Inc., its successors, assigns and legal representatives, that the interest and property hereby conveyed is free

from all prior assignment, grant, mortgage, license or other encumbrance.

/s/ Stephen Kimble	9/19/01
Stephen Kimble	Date
/s/ Robert Grabb	9/19/01
Robert Grabb	Date

[SER 24] **Fleischer, David**

From: Rgrabb@aol.com
Sent: Tuesday, August 28, 2001 1:35 PM
To: davidfleischer@paulhastings.com
Subject: Kimble v. Toy Biz

David,

Our concept of a final deal between Kimble and Toy Biz is that Toy Biz will buy the Kimble patent for appoximately $531,000, and will pay a royalty of 3% of sales on toys it sells in the future that are based on the patent or the disclosures Kimble made to Toy Biz over 10 years ago (no need to rehash what the disclosures were as they are contained in the transcript of the trial).

Our reasoning (and we had asked Claudia to address this issue at the mediation) is as follows: (Assuming the Judgment is upheld on appeal.) If Toy Biz were to make a new toy, different from the Web Blaster, but covered by either the patent or the disclosures made to Toy Biz by Kimble, then Kimble would no doubt have a new claim against Toy Biz. Therefore, the 3%

royalty for future sales would necessarily apply to toys which satisfy the underlined definition above.

In fact, it has always been our belief that the better version of the toy is the one that has the cannister attached somewhere around the waist area with a pressurized tube running along the arm. Should Toy Biz elect to make this toy or another toy based upon the patent or disclosures, we would be entitled to a 3% royalty.

I hope I've been able to articulate our position clearly. If not, and you have any other questions, please call.

Sincerely,

Bob Grabb

[SER 25]

From: rgrabb@aol.com
Sent: Wednesday, January 09, 2008 11:45 AM
To: West, Ken; kimblelaw@aol.com
Subject: Re: Royalties
Attachments: spiderman.settlement.pdf

Ken,

Thanks again for your quick response. There are a few additional issues I would like to address with you.

Would you please tell me whether the monies reflected in the latest check (#117365 for $27,844.27) included all past sales of the Ultimate Web Blaster or

just those recorded in the third quarter? (We had never been paid any royalties for the Ultimate Web Blaster prior to that last check.)

Would you also please tell me whether there are any royalties due for The Spiderman 3 Venom Mask & Wrist Blaster, sku #69164 and Spiderman 3 Reversible Red to Black Spider-Man Mask and Web Blaster, sku #69159? Neither of these products have been accounted for.

Furthermore, attached is the settlement agreement between us and Marvel. If you look at paragraph 3(b), we are to be paid,

"3% of net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include ***product sales that would infringe the Patent*** but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers."

Clearly the Ultimate Web Blaster, along with all other Web Blaster products currently on the market would infringe the Patent. The Agreement provides that we are to be paid based on the product sales, not on 20% of the product sales. I reviewed all past accountings this morning. There is no indication in any of the accountings that Marvel used this type of approach with any other Web Blaster toys in the past. If Marvel has previously done so, could you please let

me know. If this has not been done in the past, why has Marvel decided to do it now?

I appreciate all your help. This must be a big pain in your neck to deal with.

Thanks in advance for your prompt response.

Sincerely,

Bob Grabb

[SER 28]

From: rgrabb@aol.com
Sent: Thursday, February 07, 2008 12:06 PM
To: West, Ken
Subject: Re: Royalties on Web Blaster

Ken,

Sorry for the late response. I was out of town until yesterday, and Steve and I were unable to put together our response until now.

As one can well imagine, we are somewhat troubled by all the hoops we had to jump through just to get the moneys that were obviously owed. We would like Marvel to once again assure us that no other royalties are owed to us.

Assuming, as you mentioned in an earlier email, that the mistake was due to the new contract with Hasbro, we still find it troubling that Marvel unilaterally decided (without even any advance notice to us and apparently made without reviewing the Settlement

Agreement) to slash what we were owed on the Ultimate Web Blaster by 80%.

Since our relationship with Marvel will continue for as long as there is a Web Blaster toy, and assuming there will be such a toy on the market for many many years to come, we would no doubt like to remain on good terms. However, we see absolutely no incentive to modify the terms of the Settlement Agreement as you have outlined and therefore we respectfully decline your offer to do so.

If you have another proposal that is beneficial to all parties, we will certainly be happy to consider it.

Thanks for all your courtesies.

Bob

PETITIONER'S BRIEF

No. 13-720

Supreme Court, U.S.
FILED
JAN 28 2015
OFFICE OF THE CLERK

In The
Supreme Court of the United States

STEPHEN KIMBLE AND
ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF FOR PETITIONERS

ANTONIO R. DURANDO
6902 N. Table Mountain Road
Tucson, AZ 85718
(520) 243-3383

ROMAN MELNIK
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN
& WEATHERWAX LLP
11400 W. Olympic Blvd.,
Suite 400
Los Angeles, CA 90064
(310) 307-4500
melnik@glwllp.com

Counsel for Petitioners

January 28, 2015

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

QUESTION PRESENTED

Petitioners are individuals who assigned a patent and conveyed other intellectual property rights to Respondent. The court of appeals "reluctantly" held that Respondent, a large business concern, was absolved of its remaining financial obligations to Petitioners because of "a technical detail that both parties regarded as insignificant at the time of the agreement." Pet. App. 24. Specifically, because royalty payments under the parties' contract extended undiminished beyond the expiration date of the assigned patent, Respondent's obligation to pay was excused under *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964), which had held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*."

A product of a bygone era, *Brulotte* is the most widely criticized of this Court's intellectual property and competition law decisions. Three panels of the courts of appeals (including the panel below), virtually every treatise and article in the field, and (prior to the government's change of position in this case) the Patent Office, the DOJ, and the FTC, have all called on this Court to reconsider *Brulotte*, and to replace its rigid *per se* prohibition on patent royalties on post-expiration use with a rule of reason analysis.

The question presented is:

Whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

PARTIES TO THE PROCEEDINGS

There are no parties to the proceedings other than those listed in the caption.

It is Petitioners' understanding that Respondent Marvel Enterprises, Inc. has been succeeded by merger by an entity called Marvel Entertainment, LLC, and that the latter is wholly owned by The Walt Disney Company.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	i
PARTIES TO THE PROCEEDINGS	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	vi
INTRODUCTION	1
OPINIONS BELOW	2
JURISDICTION	2
CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED	3
STATEMENT	3
A. The *Brulotte* Decision	3
B. Factual Background	5
C. The District Court Decision	6
D. The Ninth Circuit Decision	7
SUMMARY OF ARGUMENT	9
ARGUMENT	13
I. *Brulotte*'s *Per Se* Prohibition On Collecting Patent Royalties Based On Post-Expiration Use Should Be Replaced With A Flexible Rule Of Reason Analysis	13

TABLE OF CONTENTS – Continued

Page

A. An Authoritative Consensus Embracing Courts, Commentators, *Amici*, And, Prior To The Government's Change Of Position In This Case, Federal Agencies, Favors Overruling *Brulotte* 13

B. The Three Premises Underlying *Brulotte* Have All Proven To Be Incorrect 18

1. Patent Policy Not Only Does Not Justify *Brulotte*'s *Per Se* Rule, But Actually Favors Discarding It 19

a. Patent Policy Does Not Support *Brulotte* Because Patent Royalties On Post-Expiration Use Do Not Temporally Extend Patent Rights 19

b. Patent Policy Compels Overruling *Brulotte* Because Its *Per Se* Rule Suppresses Innovation And Interferes With The Goals Of The Patent System 29

2. Economic Considerations Do Not Justify *Brulotte*'s *Per Se* Rule Because Patent Royalties On Post-Expiration Use Usually Are Procompetitive 36

TABLE OF CONTENTS – Continued

Page

3. Antitrust Policy Does Not Justify *Brulotte*'s *Per Se* Rule, Which Relies On The Outdated Irrebuttable Presumption That Patents Confer Market Power 41

C. Licensing Arrangements Involving Patent Royalties On Post-Expiration Use Should Instead Be Scrutinized Using A Flexible Rule Of Reason Analysis 45

II. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte* 49

CONCLUSION 58

TABLE OF AUTHORITIES

Page

CASES

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) 26

Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found., 402 U.S. 313 (1971) 52, 54

Brulotte v. Thys Co., 379 U.S. 29 (1964) ..... *passim*

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) 26

Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977) 56

County Materials Corp. v. Allan Block Corp., 502 F.3d 730 (7th Cir. 2007) 47, 48

Delaney v. Marchon, Inc., 627 N.E.2d 244 (Ill. App. Ct. 1993) 42

Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394 (1947) 26

Halliburton Co. v. Erica P. John Fund, Inc., 134 S. Ct. 2398 (2014) 50, 51

Illinois Tool Works, Inc. v. Independent Ink, Inc., 547 U.S. 28 (2006) 11, 43, 45, 54, 55

Indust. Promotion Co. v. Versa Prods., Inc., 467 N.W. 2d 168 (Wis. Ct. App. 1991) 42

Kimble v. Marvel Enters., Inc., 727 F.3d 856 (9th Cir. 2013) 2, 15

Kimble v. Marvel Enters., Inc., 692 F. Supp. 2d 1156 (D. Ariz. 2010) 2

TABLE OF AUTHORITIES – Continued

Page

Lear, Inc. v. Adkins, 395 U.S. 653 (1969).....26, 52

Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877 (2007).....*passim*

Miller v. Eagle Mfg. Co., 151 U.S. 186 (1894).....27

Monell v. Dep't of Soc. Servs., 436 U.S. 658 (1978).....52

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).....52

New York Trust Co. v. Eisner, 256 U.S. 345 (1921).....46

Patterson v. McLean Credit Union, 491 U.S. 164 (1989).....54

Payne v. Tennessee, 501 U.S. 808 (1991).....51

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014 (7th Cir. 2002).....*passim*

Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945).....26, 27

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).....26

Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896).....26

State Oil Co. v. Khan, 522 U.S. 3 (1997).....56

United States v. Reliable Transfer Co., 421 U.S. 397 (1975).....51

TABLE OF AUTHORITIES – Continued

Page

Virginia Panel Corp. v. MAC Panel Co., 133 F.3d 860 (Fed. Cir. 1997) 48

Zila, Inc. v. Tinnell, 502 F.3d 1014 (9th Cir. 2007) 16

CONSTITUTION AND STATUTES

U.S. Const. Art. I, §8, cl. 8 ..... 50, 51

35 U.S.C. §154 ..... 50, 51

35 U.S.C. §271(d)(5) 11, 42

LEGISLATIVE MATERIALS

Act of Nov. 19, 1988, Pub. L. No. 100-703, §201, 102 Stat. 4676 43

Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Committee on the Judiciary, 100th Cong. (May 11, 1988) 16, 52, 53

BRIEFS

Brief for Respondent, *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), No. 04-1329 (Sept. 28, 2005) 54

TABLE OF AUTHORITIES – Continued

Page

OTHER AUTHORITIES

ABA Section of Antitrust Law, *Intellectual Property Misuse: Licensing And Litigation* (2000) 34, 37

Louis Altman, *Is There An Afterlife? The Effect of Patent or Copyright Expiration on License Agreements*, 64 J. Pat. Off. Soc'y 297 (1982) 28

10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* (3d ed. 2011 & Supp. 2014) 14, 21, 39

Ian Ayres & Paul Klemperer, *Limiting Patentees' Market Power without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 Mich. L. Rev. 985 (1999) 14, 30

Christina Bohannan, *IP Misuse as Foreclosure*, 96 Iowa L. Rev. 475 (2011) 24, 39

Ward S. Bowman, Jr., *Patent and Antitrust Law: A Legal and Economic Appraisal* (Univ. of Chicago Press 1973) 23, 42

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marq. Intell. Prop. L. Rev. 1 (2011) 24, 30

Thomas F. Cotter, *Four Questionable Rationales for the Patent Misuse Doctrine*, 12 Minn. J. L. Sci. & Tech. 457 (2011) 15

TABLE OF AUTHORITIES – Continued

Page

Thomas F. Cotter, *Misuse,* 44 Hous. L. Rev. 901 (2007) 37, 41

Thomas F. Cotter, *Postexpiration Patent Royalties*, Comparative Patent Remedies, Nov. 5, 2014, http://comparativepatentremedies.blogspot.com/2014/11/postexpiration-patent-royalties.html 28

Jay Dratler, Jr., *Licensing of Intellectual Property* (1994 & Supp. 2013) 13, 24, 42, 46

Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning* Lear? *Incentives to Innovate After* MedImmune, 24 Berkeley Tech. L.J. 971 (2009) 15, 17, 30, 33, 43

Rochelle Cooper Dreyfuss, *Dethroning* Lear: *Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677 (1986) 25, 38

Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953 (2005) 16, 23, 34

Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003) 28

Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties* in BROOKINGS PAPERS ON ECONOMIC ACTIVITY: MICROECONOMICS 283 (1997) 14, 29

Kelley Hershey, Note, *Scheiber v. Dolby Laboratories, Inc.*, 18 Berkeley Tech. L.J. 159 (2003) 38, 40, 46

TABLE OF AUTHORITIES – Continued

Page

2 William C. Holmes, *Intellectual Property and Antitrust Law* (2014).....17, 44, 46

1 Herbert Hovenkamp, et al., *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* (2d ed. 2015).....*passim*

William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 380 & 418 (Harvard Univ. Press 2003).....13, 44

Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599 (1990).....25, 37

Ronald Mann, *Is The Patent Act More Like The Sherman Act Or The Securities Laws?* SCOTUSblog, Dec. 4, 2014, http://www.scotusblog.com/2014/12/is-the-patent-act-more-like-the-sherman-act-or-the-securities-laws.....57

A. Douglas Melamed & Ali M. Stoeppelwerth, *The* CSU *Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law*, 10 Geo. Mason L. Rev. 407 (2002).....44

Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793 (1988).....27

3 Roger M. Milgrim & Eric E. Bensen, *Milgrim on Licensing* (2014).....13, 33

Raymond T. Nimmer & Jeff C. Dodd, *Modern Licensing Law* (2014).....15, 24, 43, 46

TABLE OF AUTHORITIES – Continued

Page

Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325 (2005) 2

John W. Schlicher, *Licensing Intellectual Property: Legal, Business, and Market Dynamics* (John Wiley & Sons, Inc. 1996) 23, 30

John W. Schlicher, *Patent Law, Legal and Economic Principles* (2d ed. 2012) 14

Harold See & Frank M. Caprio, *The Trouble with* Brulotte*: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813 (1990) 4, 15, 22, 30

Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 Hastings Sci. & Tech. L.J. 21 (2008) 4, 15, 24

U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007) ..... *passim*

INTRODUCTION

Petitioners respectfully ask this Court to overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), Pet. App. 73-85, and to reject its rigid *per se* prohibition of contractual arrangements involving collection of patent royalties based on post-expiration use. Petitioners are in good company. Three panels of the courts of appeals (including the panel below), virtually every treatise and article in the field, numerous *amici* (representing research institutions, IP practitioners, and prominent scholars in the field), and (prior to the Solicitor General's change of position in the invitation brief in this case) the United States Patent and Trademark Office, the Antitrust Division of the Justice Department, and the Federal Trade Commission, also have called on this Court to reconsider that decision.

This Court has, in recent years, reexamined other outdated competition law decisions in light of a keener awareness of economics and real world business circumstances, and has supplanted rigid *per se* rules, unequal to the realities of the marketplace, with a more flexible, case-by-case analysis under the rule of reason. It is now *Brulotte*'s turn – as Judge Posner has observed, "*Brulotte* does not reflect the Supreme Court's current thinking about competition and monopoly, but . . will continue to bind the lower

courts until the Supreme Court decides to overrule it."[1]

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1-26) is reported at 727 F.3d 856. The opinion of the United States District Court for the District of Arizona (Pet. App. 27-45) is reported at 692 F. Supp. 2d 1156. The report and recommendation of the magistrate judge (Pet. App. 46-72) also is reported at 692 F. Supp. 2d 1156 as an attachment to the district court opinion.

JURISDICTION

The Ninth Circuit entered judgment on July 16, 2013. On September 27, 2013, Justice Kennedy granted an extension until December 13, 2013 (No. 13A304) to file a petition for a writ of certiorari in this matter. The petition was timely filed, and granted on December 12, 2014. This Court's jurisdiction is invoked under 28 U.S.C. §1254(1).

---

[1] Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325, 332 (2005).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

None.

STATEMENT

A. The *Brulotte* Decision

In *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), Pet. App. 73-85, this Court held, as a matter of federal law, that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Brulotte*, 379 U.S. at 32, Pet. App. 77. While a "patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly," the Court observed, "to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by t[y]ing the sale or use of the patented article to the purchase or use of unpatented ones." *Id.*, 379 U.S. at 33, Pet. App. 78. Consequently, the Court reasoned, the "exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when . . the patent has entered the public domain." *Id.*, 379 U.S. at 33, Pet. App. 78-79. In reaching this conclusion, the *Brulotte* Court did not inquire into the nature or frequency of any anti-competitive effects that might flow from patent royalties on post-expiration use: it simply assumed the worst. *See* 1 Herbert Hovenkamp, Mark D. Janis,

Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* §23.2a. at 23-9 (2d ed. 2015) ("Hovenkamp IP & Antitrust Treatise") (*Brulotte* "created a rule of per se illegality" without requiring "any finding of anticompetitive effects in any market").

As a consequence of *Brulotte*, "willing parties are prohibited from agreeing to [patent] royalties that accrue based on post-expiration use, even if that royalty structure is mutually agreed (a) without any coercion by the licensor, (b) as the most convenient method of measuring the value of the licensed rights, and (c) in exchange for a lower royalty rate overall."[2] In other words, *Brulotte* categorically "requires the licensor and licensee to amortize the present value of the license fee over the remaining years of the patent term," rather than, for example, accruing royalties over the life of the licensed product, "even if a longer amortization period is optimal for the parties."[3]

---

[2] Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 Hastings Sci. & Tech. L.J. 21, 98 (2008).

[3] Harold See & Frank M. Caprio, *The Trouble with* Brulotte*: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 814 (1990).

B. Factual Background

Petitioner Stephen Kimble invented a toy that allows a child to role play as Spider-Man by mimicking that superhero's web-shooting abilities with foam string. Pet. App. 3. In December 1991, Kimble obtained a patent on his invention. Pet. App. 3-4.

Meanwhile, in December 1990, Kimble met with the president of the predecessor in interest of Respondent Marvel Enterprises, Inc. ("Marvel") to discuss his then-pending patent application and other "ideas and know-how" related to the web-shooting toy. Pet. App. 4. The executive verbally agreed to compensate Kimble if the company used any of his ideas. *Id.*

In 1997, Kimble sued Marvel's predecessor in interest for breach of the verbal agreement and patent infringement, alleging that the company had used his ideas in developing a toy called the Web Blaster without compensating him. Pet. App. 5. After the district court granted summary judgment of noninfringement, the jury found for Kimble on the contract claim. *Id.* Both parties appealed. *Id.*

In 2001, while the appeals were pending, Kimble, Petitioner Robert M. Grabb[4] and Marvel settled the 1997 litigation. Pet. App. 5-6. Pursuant to the 2001 settlement agreement, Petitioners assigned their

---

[4] Mr. Grabb had acquired an interest in Kimble's intellectual property rights prior to the 2001 settlement, and became a party to that agreement. Pet. App. 3 n.1; Pet. App. 29 n.1.

patent to Marvel, as well as conveying the non-patent intellectual property rights to the toy ideas verbally exchanged between the parties during the December 1990 meeting. Pet. App. 9. In return, the agreement provided for a lump-sum payment and an additional running royalty of 3% of "net product sales." Pet. App. 6. The settlement agreement did not provide for any reduction in the royalty rate after the assigned patent expired. *Id.* At the time the agreement was signed, neither party was aware of the *Brulotte* decision. Pet. App. 6-7 & n.3.

In 2008, after certain disagreements arose between the parties regarding royalty calculation methodology, Petitioners sued Marvel in state court for breach of the 2001 settlement agreement. Pet. App. 8. After removal to federal court, Marvel – which had since become aware of *Brulotte* as a result of sublicensing negotiations with a third party – counterclaimed, seeking a declaration that it would owe no further royalties after the assigned patent expired on May 25, 2010. Pet. App. 7-8 & n.3.

C. The District Court Decision

The district court, adopting the magistrate judge's report and recommendation, granted summary judgment in favor of Marvel on its declaratory judgment counterclaim. Pet. App. 37. In the absence of a royalty rate reduction at patent expiration or other indication to the contrary, the district court reasoned, the post-expiration royalty was at least

partially attributable to the assigned patent rights, and hence uncollectible in its entirety under *Brulotte*, as the court was "'unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage.'" Pet. App. 35 & 37 & 58-60 (quoting *Brulotte*, 379 U.S. at 32, Pet. App. 77).

D. The Ninth Circuit Decision

The Ninth Circuit "reluctantly" affirmed. Pet. App. 2-3. The 2001 settlement agreement, it held, conveyed "inseparable patent and non-patent rights" and contained neither a post-expiration discount "from the patent-protected rate" nor "some other clear indication that the [post-expiration] royalty at issue was in no way subject to patent leverage." Pet. App. 3; Pet. App. 18. Consequently, the panel was constrained to "presume that the post-expiration royalty payments . [were] for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*," rendering the obligation to make those royalty payments "unenforceable." Pet. App. 18. This was true even though "Kimble's primary leverage in negotiating the [2001] settlement was undoubtedly the jury verdict on the contract claim," as, "at the time of the negotiations, he [also] was [still] challenging the district court's decision and likely derived some amount of leverage from his patent infringement appeal." Pet. App. 22-23.

At the same time, the court of appeals noted that application of *Brulotte*'s *per se* rule compelled an unjust result:

> We acknowledge [that] our application of the *Brulotte* rule in this case arguably deprives Kimble of part of the benefit of his bargain based upon a technical detail that both parties regarded as insignificant at the time of the agreement. . . . [¶] The patent leverage in this case was vastly overshadowed by what were likely non-patent rights, and Kimble may have been able to obtain a higher royalty rate had the parties understood that the royalty payments would stop when the patent expired.

Pet. App. 23-25.

Additionally, the Ninth Circuit observed that *Brulotte* was a "frequently-criticized" opinion resting on a "counterintuitive" and "economically unconvincing" rationale, and endorsed the Seventh Circuit's extensive prior critique of that decision. Pet. App. 24-25 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (Posner, J.)); Pet. App. 2; Pet. App. 16. Consequently, while acknowledging that it was "bound by Supreme Court authority," the court of appeals called on this Court to reconsider *Brulotte*, noting that other courts, federal agencies, and numerous academic commentators similarly had done so. Pet. App. 2; Pet. App. 24-25 & n.7; Pet. App. 15-16.

SUMMARY OF ARGUMENT

1. The *Brulotte* decision was based on three premises. First, this Court reasoned that patent policy supported its holding because patent *royalties* on post-expiration use somehow extend the patent *right* into the post-expiration period. Second, this Court implicitly assumed that economic considerations supported its conclusion because such royalties are invariably anticompetitive. Finally, this Court presumed that antitrust policy supported its holding because merely having a patent always confers market power and inherently allows the licensor to exercise improper negotiating leverage over the licensee.

Brulotte should be overruled because each of these premises has, in the fullness of time, proven to be mistaken. Indeed, patent policy, economic considerations, and antitrust policy, properly understood, instead each favor reconsidering that decision. Consequently, *Brulotte* is now, quite literally, a rule without a cognizable rationale.

a. As an initial matter, there is a broad consensus among the courts of appeals and experts in the field that patent policy does not support the holding of *Brulotte* because patent *royalties* on post-expiration use do not extend the patent *right* into the post-expiration period. Once a patent has expired, it cannot prevent anyone from practicing the invention – a fact that the contracting parties are well aware of in advance. License payment terms, consequently,

reflect the anticipated value of the authorization to use the patented invention before the patent expires. Even if certain patent royalty payments nominally are measured by post-expiration use, they nonetheless represent an amortization of the predicted value of the pre-expiration authorization. For example, the parties may agree to defer the start of the accrual period, or to lower the royalty rate, in exchange for an extended accrual period. Such a trade-off, however, merely calibrates the value of the pre-expiration authorization to the circumstances – it does not extend in time the patent right to exclude.

Indeed, patent policy, properly understood, favors discarding *Brulotte*. *Brulotte* harms innovation because it impairs the ability of contracting parties, particularly research hospitals and universities, to balance and allocate the risks of developing and commercializing new patentable technologies such as life-saving medical treatments, disincentivizing their initial creation, and thus increasing the likelihood that such technologies will never reach patients and consumers. Such a result certainly is not consonant with either social welfare or the goals of the Nation's patent system.

b. Economic considerations also favor overruling *Brulotte*. As the Justice Department and FTC have acknowledged, patent royalties on post-expiration use can be procompetitive, as they can lower prices and raise output during the patent term by means of an upfront royalty rate reduction, and also lower prices and increase competition *after* the

end of the patent term by encouraging market entry by new, lower-priced competitors. In the closely-related antitrust context, this Court consistently has emphasized that *per se* prohibitions are reserved for practices that are "always or almost always" anti-competitive.[5] Against this background, the *Brulotte* *per se* rule makes little sense.

c. Finally, the third premise underlying *Brulotte* – one rooted in antitrust policy – has been undercut by subsequent developments, as both Congress and this Court have, in recent years, pointedly rejected the patent-equals-market-power presumption. *See* 35 U.S.C. §271(d)(5); *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42, 45-46 (2006). This change in the law has further undermined *Brulotte*'s already-crumbling doctrinal foundations.

d. The prevailing view among experts in the patent, licensing, and antitrust fields is that if *Brulotte* is overruled, patent royalties on post-expiration use should instead be scrutinized using a flexible, case-by-case analysis under the rule of reason. Because the courts of appeals already rely on the rule of reason to review allegations of patent misuse, examining patent royalties on post-expiration use under the same rubric simply would align analysis of such royalties with existing patent misuse law.

---

[5] *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886-87 (2007) (internal quotation marks omitted).

2. The doctrine of *stare decisis* does not counsel against reconsideration of *Brulotte*.

First, Petitioners have provided special justification for overruling *Brulotte* that extends beyond a mere explanation for why that precedent was wrongly decided. As Petitioners and their *amici* have demonstrated at length, *Brulotte* damages the American economy and suppresses innovation because the licensing practices it forbids would provide unique procompetitive benefits – something that has not previously been brought to the Court's attention. Where, as here, a new, and largely undisputed, understanding of the harmful real-world economic consequences of *Brulotte*'s *per se* rule has emerged since the Court last considered the issue, nothing compels placing on the shoulders of Congress the burden of the Court's own error.

Second, reliance interests would not be significantly implicated by reconsideration of *Brulotte*, as the only existing agreements likely to be impacted are either those – like the one at issue in this case – where the parties agreed to patent royalties based on post-expiration use because they were unaware of *Brulotte*, or those where one of the parties purposely entered into such an agreement in the hope of later avoiding its contractual obligations on the basis of *Brulotte*. By contrast, lifting *Brulotte*'s *per se* prohibition will have no effect on agreements that do not run afoul of it.

ARGUMENT

I. *Brulotte*'s *Per Se* Prohibition On Collecting Patent Royalties Based On Post-Expiration Use Should Be Replaced With A Flexible Rule Of Reason Analysis.

A. An Authoritative Consensus Embracing Courts, Commentators, *Amici*, And, Prior To The Government's Change Of Position In This Case, Federal Agencies, Favors Overruling *Brulotte*.

Brulotte is the most widely criticized of this Court's intellectual property and competition law decisions. Virtually every treatise in the field to address the issue, and every article on the subject, denounces *Brulotte* as fundamentally misguided and economically unsound, and calls for it to be overruled and for its rigid *per se* prohibition on patent royalties on post-expiration use to be replaced with a flexible, case-by-case analysis. *See, e.g.*, 3 Roger M. Milgrim & Eric E. Bensen, *Milgrim on Licensing* §18.05 (2014) ("Milgrim Treatise") (*Brulotte* "is so illogical from the standpoint of any economic analysis that it inspires awe that legal reasoning can be so removed from the universe in which it occurs"); Jay Dratler, Jr., *Licensing of Intellectual Property* §4.04[5][d] (1994 & Supp. 2013) ("Dratler Treatise") ("[The] rule of *Brulotte* is an anachronism with little or no economic justification[,] . . a lonely *per se* outpost in a rule-of-reason world."); William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 380 & 418 (Harvard Univ. Press 2003) ("Landes & Posner")

(*Brulotte* is "wrong," "dubious," "anomalous," and "one of the all-time economically dumb Supreme Court decisions"); John W. Schlicher, *Patent Law, Legal and Economic Principles* §13:218 (2d ed. 2012) ("Schlicher Patent Treatise") ("[P]ost-expiration royalties should not be a basis for patent misuse," or, at a minimum, "should not be the subject of a *per se* rule."); Ian Ayres & Paul Klemperer, *Limiting Patentees' Market Power without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 Mich. L. Rev. 985, 1027 (1999) ("Our analysis . . . suggests that *Brulotte* should be overruled."); Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties* in BROOKINGS PAPERS ON ECONOMIC ACTIVITY: MICROECONOMICS 283, 322 (1997) ("Gilbert & Shapiro")[6] ("Economic theory reveals that [the *Brulotte*] . doctrine is flawed. . . . [Its] [l]egal reasoning . , based on the notion that extending the royalties in time is to 'enlarge the monopoly of the patent,' although rhetorically appealing, does not seem to reflect commercial reality or basic economics.").[7]

---

[6] *Available at* faculty.haas.berkeley.edu/shapiro/ninenono.pdf.

[7] *See also* 10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* ¶1782c & 555 (3d ed. 2011 & Supp. 2014) (describing in detail "the error in *Brulotte*"); 1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property*

(Continued on following page)

Three recent decisions of the courts of appeals, including the Ninth Circuit's decision in this case, while reluctantly following *Brulotte*, also have called on this Court to reconsider it:

> [*Brulotte*] has . . been severely, and as it seems to us, with all due respect, justly, criticized. . However, we have no authority to overrule a Supreme Court decision no matter how dubious its reasoning strikes us, or even how out of touch with the Supreme Court's current thinking the decision seems.

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1017-18 (7th Cir. 2002) (Posner, J.); *accord Kimble v. Marvel Enters., Inc.*, Pet. App. 2 & 24-25 & n.7 (noting that although the panel was "bound by Supreme Court

---

Law §23.2a at 23-7 & 23-13 (2d ed. 2015) ("Hovenkamp IP & Antitrust Treatise") ("*Brulotte* condemned a post-expiration royalty provision under a per se rule that reflected the hostility of that era toward perceived extension of the patent 'monopoly.' . . [T]hese concerns are misplaced. . . "); Raymond T. Nimmer & Jeff C. Dodd, *Modern Licensing Law* §7:10 (2014) ("Nimmer Treatise") ("Per se illegality . . [pursuant to *Brulotte*] is a bad rule."); See & Caprio, 1990 Utah L. Rev. at 853 ("*Brulotte* . . is wrongly decided"); Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives to Innovate After* MedImmune, 24 Berkeley Tech. L.J. 971, 1006 (2009) (*Brulotte* was "misguided when . . decided and . . . [is] certainly out of step with current economic understanding and business practices."); Thomas F. Cotter, *Four Questionable Rationales for the Patent Misuse Doctrine*, 12 Minn. J. L. Sci. & Tech. 457, 461 n.18 & 480 (2011) ("*Brulotte* has been widely, and justly, criticized as resting on flawed economic reasoning . . . [and] would be hard to defend."); Server et al., 1 Hastings Sci. & Tech. L.J. at 96-98 (criticizing *Brulotte* as "flawed").

authority," the "*Brulotte* rule is counterintuitive and its rationale is arguably unconvincing"); *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1019-20 & n.4 (9th Cir. 2007) ("[We] are bound to apply [*Brulotte*] . . . if it applies to the case before us . . . [and must leave to the Supreme] Court the prerogative of overruling its own decisions.") (internal quotation marks omitted); *see also* Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953, 955 n.7 (2005) ("*Brulotte* [is] wrong in principle – but conclusive on the lower federal judiciary until the Justices deliver the R.I.P.").

Various federal agencies – prior to the Solicitor General's change of position in the invitation brief in this case – also had expressed disagreement with *Brulotte*. In formal testimony before Congress, the United States Patent and Trademark Office declared *Brulotte*'s "*per se* condemnation of royalty payments beyond the life of a patent" to be "unsound."[8] Similarly, the Antitrust Division of the Justice Department and the Federal Trade Commission, in a joint report issued after receiving testimony from numerous legal and economic experts, expressly agreed that the purported patent policy concerns animating *Brulotte* were based on a mistaken premise, recognized that

---

[8] *See* Testimony of Rene D. Tegtmeyer, Assistant Commissioner of Patents in *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Committee on the Judiciary*, 100th Cong. at 30 & 35 (May 11, 1988) ("H.R. 4086 Hearing") (*available at* http://babel.hathitrust.org/cgi/pt?id=pst.000014967702).

"[c]ollecting royalties beyond a patent's statutory term can be efficient," and concluded that, notwithstanding *Brulotte*'s *per se* prohibition, the agencies would, for antitrust enforcement purposes, "review most agreements that have the potential to extend the market power conferred by a valuable patent beyond that patent's expiration pursuant to the rule of reason." U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007) at 12 & 122 & 118 n.18 ("2007 DOJ/FTC Report");[9] *see also* Part I.B.1.a, *infra* (discussing the agencies' patent policy conclusion in more detail). Not surprisingly, both the Ninth Circuit in this case, Pet. App. 25 n.7, and academic commentators, viewed these pronouncements as a call by the government that *Brulotte* should be overruled. *See, e.g.*, Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning* Lear? *Incentives to Innovate After* MedImmune, 24 Berkeley Tech. L.J. 971, 996 (2009) (2007 DOJ/FTC Report suggests that *Brulotte* "ought to be reconsidered"); 2 William C. Holmes, *Intellectual Property and Antitrust Law* §24:3 (2014) ("Holmes Treatise") ("[Patent royalties on post-expiration use] should not be held per se illegal, or to constitute per se patent misuse, and should instead be governed by the more flexible rule of reason – a position that is now taken

---

[9] *Available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf.

by both federal antitrust enforcement agencies. . .") (citing 2007 DOJ/FTC Report at 122).

Numerous *amici*, representing research institutions, IP practitioners, and prominent scholars in the field, also have asked this Court to reconsider *Brulotte*.[10] (At the merits stage, Petitioners anticipate further support from several additional *amici*.)

Consequently, there exists a wide-ranging, authoritative, and undisputed consensus that *Brulotte*'s rigid *per se* prohibition on collecting patent royalties based on post-expiration use is fundamentally misguided and economically unsound, and should be discarded in favor of a more flexible, case-by-case analysis.

B. The Three Premises Underlying *Brulotte* Have All Proven To Be Incorrect.

The reason *Brulotte* has met with such pervasive criticism is straightforward. The three premises underlying that decision – (i) that patent policy supports its holding because patent *royalties* on

---

[10] *See Brief Amici Curiae of Memorial Sloan-Kettering Cancer Center et al.* at 9-11 ("Memorial Sloan-Kettering Petition-Stage *Amicus* Brief"); *Brief Amici Curiae of Center for Intellectual Property Research of the Indiana University Maurer School of Law et al.* at 6-16 ("Legal Scholars Petition-Stage *Amicus* Brief"); *Brief Amicus Curiae of The Intellectual Property Law Association of Chicago* at 3-7 ("IPLAC Petition-Stage *Amicus* Brief").

post-expiration use somehow extend the patent *right* into the post-expiration period, (ii) that economic considerations support its holding because such royalties are invariably anticompetitive, and (iii) that antitrust policy supports its holding because merely having a patent always confers market power and inherently allows the licensor to exercise improper negotiating leverage over the licensee – have each, in the fullness of time, proven to be mistaken.

1. Patent Policy Not Only Does Not Justify *Brulotte*'s *Per Se* Rule, But Actually Favors Discarding It.

Both Marvel, and the government in its invitation brief in this case, argue that *Brulotte*'s *per se* rule should be retained because it is justified by patent policy. BIO 17-20; US CVSG Br. 15-19. Not so. Patent policy, properly understood, favors overruling that decision because patent *royalties* on post-expiration use do not temporally extend patent *rights*, and because *Brulotte* suppresses technological innovation.

a. Patent Policy Does Not Support *Brulotte* Because Patent Royalties On Post-Expiration Use Do Not Temporally Extend Patent Rights.

Brulotte assumes that patent policy supports its *per se* rule because "exaction of royalties for use of a machine after the patent has expired is an assertion

of monopoly power in the post-expiration period." *Id.*, 379 U.S. at 33, Pet. App. 78-79; *see also* US CVSG Br. 8 & 16 (*Brulotte* "promote[s] the public's unfettered access to patented inventions after the expiration of the patent term.").

There is a broad consensus among the courts of appeals and experts in the field, however, that this premise is mistaken, and that patent *royalties* on post-expiration use do not in fact extend the patent *right* into the post-expiration period.

Once a patent has expired, it cannot prevent anyone from practicing the invention – a fact that the contracting parties are well aware of in advance. License payment terms, consequently, reflect the anticipated value of the authorization to use the patented invention before the patent expires. Even if certain patent royalty payments nominally are measured by post-expiration use, they nonetheless represent an amortization of the predicted value of the pre-expiration authorization. For example, the parties may agree to defer the start of the accrual period, or to lower the royalty rate, in exchange for an extended accrual period. Such a trade-off, however, merely calibrates the value of the pre-expiration authorization to the circumstances – it does not extend in time the patent right to exclude. As a leading treatise has explained,

> [w]hen the only payments are for use and such payments are required beyond patent expiration, the patentee may appear to extract

> an unauthorized fee for post-expiration use. *However, this appearance is an illusion.* The machine is presumably more valuable while the patent prevents copying; hence, the annual fee for using it would be higher during the early years if it were not stretched out over the machine's useful life. [¶] Competing manufacturers [nevertheless] are free to employ the patented technology the instant the patents have expired.

10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* ¶1782c.3 at 556 (3d ed. 2011 & Supp. 2014) ("Areeda Treatise") (emphasis added).

Judge Posner has made the same point on behalf of the Seventh Circuit:

> 'The *Brulotte* rule incorrectly assumes that a patent license has significance after the patent terminates. When the patent term ends, the exclusive right to make, use or sell the licensed invention also ends. Because the invention is available to the world, the license in fact ceases to have value. Presumably, licensees know this when they enter into a licensing agreement. If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments on the licensees' assessment of the value of the license during the patent period. These payments, therefore, do not represent an extension in time of the patent monopoly.'

Scheiber, 293 F.3d at 1017 (quoting Harold See & Frank M. Caprio, *The Trouble with* Brulotte*: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 814 (1990) (emphasis in original omitted)).

The Ninth Circuit in this case also endorsed this analysis:

> 'The Supreme Court's majority opinion [in *Brulotte*] reasoned that by extracting a promise to continue paying royalties after expiration of the patent, the patentee extends the patent beyond the term fixed in the patent statute and therefore in violation of the law. That is not true. After the patent expires, anyone can make the patented process or product without being guilty of patent infringement. The patent can no longer be used to exclude anybody from such production. Expiration thus accomplishes what it is supposed to accomplish. *For a licensee in accordance with a provision in the license agreement to go on paying royalties after the patent expires does not extend the duration of the patent either technically or practically, because if the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower.* The duration of the patent fixes the limit of the patentee's power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.'

Pet. App. 24-25 (quoting *Scheiber*, 293 F.3d at 1017) (emphasis added).

Virtually every treatise and article on the subject also is in accord. *See, e.g.*, Easterbrook, 42 Hous. L. Rev. at 955 (A "license [does] not create a monopoly. . . . *Brulotte* . . . is problematic because it misses this point. Once the patent expires, the power to exclude is gone and all we have is a problem about optimal contract design. If it is lawful to set royalties as '10% during the patent and nothing thereafter,' why is it forbidden to set them at 5% during and after the patent?"); Ward S. Bowman, Jr., *Patent and Antitrust Law: A Legal and Economic Appraisal* 233 (Univ. of Chicago Press 1973) (criticizing *Brulotte* for failing to explain "how paying 'machine royalties' over a period longer than the life of the patent could conceivably be the equivalent of extending the effective life of the patent"); John W. Schlicher, *Licensing Intellectual Property: Legal, Business and Market Dynamics* 195 (John Wiley & Sons, Inc. 1996) ("Schlicher Licensing Treatise") ("If the patent owner asks that royalties be paid over the twenty-five year period, the royalty rate during the term must be lower. This is so because the value of the patent to the licensee is limited by the difference between the cost and demand during the term. After the term, all others will be able to use the invention freely in competition with those licensees. Unless that license provides them some additional benefit, the rate must be lowered to induce the licensees to agree to pay over the longer period.").[11]

---

[11] *See also* 1 Hovenkamp IP & Antitrust Treatise §23.2a at 23-11 ("It is not even clear that the *Brulotte* arrangement served

(Continued on following page)

---

to enlarge the gross amount of royalties payable to the patentee by making them payable for a longer time. The patentee could as easily have charged a higher royalty rate but made the royalty requirement expire with the patents. If adjusted to present value, the licensee would be indifferent among the options."); Nimmer Treatise at §7:10 ("*Brulotte* reflects a fundamental misdescription of the royalty decision to cover uses after expiration of the underlying rights. That choice does not extend the underlying property right but merely reflects a decision about how to compute and pay the price charged for a license."); Dratler Treatise at §5.04[6][a][i] ("[The] contractual obligation . . . at issue [in *Brulotte*] hardly extended the term of the patents. Everyone besides the licensee was free to practice the patents after they expired with no payment whatsoever. For example, competing manufacturers could make the same machines freely and even sell them to licensees of the expired patents."); Server et al., 1 Hastings Sci. & Tech. L.J. at 101 n.231 ("[P]ost-expiration royalties are merely a method of financing the value received by the licensee during the patent term, since upon expiration of the patent, the patentee has nothing of value left to offer in exchange. Following the expiration of the patent, no one can be excluded from exploiting the previously patented invention, and licensees presumably know this fact when they negotiate the royalty terms of their license."); Christina Bohannan, *IP Misuse as Foreclosure*, 96 Iowa L. Rev. 475, 516-17 (2011) ("[T]he Court's reasoning [in *Brulotte*] is faulty. . . The patent holder can charge as much as it wants for the use of the invention during the patent term, and the entire amount that the licensee is willing to pay can be allocated to use of the patent during the term. The licensee is indifferent as to how the total payment will be allocated and will not pay another monopoly price for use of the patented invention after the patent has expired."); Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marq. Intell. Prop. L. Rev. 1, 41-42 & n.186 (2011) ("Post-term royalties are later payment for value already received (the value of access to the patent during its term). . . . The relevant 'extension of the monopoly' post-term royalty inquiry, therefore, is not when payment occurs, but whether the discounted present value of the aggregate royalty

(Continued on following page)

Until the Solicitor General's change of position in the invitation brief in this case, the government, too, had agreed with this analysis. In the 2007 DOJ/FTC Report, the Antitrust Division of the Justice Department and the FTC, citing the Seventh Circuit's opinion in *Scheiber*, concluded that the purported patent policy concerns animating *Brulotte* were based on a mistaken premise, because "[o]nce a patent expires, a licensee can use the patent for no charge," and it "is therefore unclear how a licensor could persuade a licensee to pay more than the amount the licensee would be willing to pay to use the patent during its term." 2007 DOJ/FTC Report at 118 n.18.

---

payments exceeds the value of accessing the patent during its (remaining) term. [¶] The market ensures that equivalence will always exist regardless of when actual payment is made."); Rochelle Cooper Dreyfuss, *Dethroning* Lear*: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677, 710 n.120 (1986) ("It is important to note that post-expiration royalty provisions do not entirely circumvent the limited-time provision of the Patent Act or the Constitution. The . . patent term influences the price that the licensee will pay for the product in two ways. Knowing that the product will eventually be available royalty-free may induce the licensee to pay less for it in the first place. The licensee will also bargain down the royalty rate because it knows that after the patent lapses it will have to compete with rivals who enjoy free use of the invention."); Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1630 (1990) ("A licensee will pay a fixed amount for a license, and the courts should not care whether the licensee pays that amount up front, in ten years, or in a hundred years.").

Faced with the consensus view that no patent policy justifies *Brulotte*'s blanket prohibition on collecting patent royalties based on post-expiration use, the government and Marvel have little to say.

The government's invitation brief neither acknowledges its own agencies' prior conclusion, nor engages the substance of the consensus position. Instead, the government's brief blithely asserts that "*Brulotte* fits comfortably within a line of precedents establishing that the federal patent laws are not indifferent to what happens when a patent's prescribed term expires." US CVSG Br. 17. Yet the cases the government cites are readily distinguishable, as they all involved attempts to extend the duration of patent rights *against the public at large*, either (i) by virtue of patent-like state-law rights conferred after patent expiration,[12] or (ii) through contracts that precluded challenges to patent validity, thereby potentially extending the duration of patent rights that might otherwise have been extinguished as a result of a successful invalidity challenge.[13] An

---

[12] *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169 (1896).

[13] *See Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945).

Although *Scott Paper* nominally involved a contractual restriction on a non-infringement defense, in substance the defense was one of invalidity, as the accused product was alleged

(Continued on following page)

agreement providing for patent royalties on post-expiration use, by contrast, indisputably does not preclude the public at large from practicing the invention after patent expiration.

Marvel, in turn, asserts (BIO at 19) that patent policy justifies *Brulotte*'s *per se* prohibition because allowing royalties on post-expiration use leaves "open the time for determining and capturing the value of the invention," substituting the "success which the licensed product enjoyed after expiration for success during the term of the patent." (internal quotation marks and brackets omitted). But this argument does not advance the ball much, as it simply amounts to a formalistic assertion that patent policy should proscribe royalties on post-expiration use because such royalties accrue after expiration. Indeed, it is telling that even the commentators whose work Marvel cites in support of this argument (*id.*) do not actually back retaining *Brulotte*'s rigid *per se* prohibition.[14]

---

to be in the prior art. *See Scott Paper*, 326 U.S. at 251. It is a well-established principle of patent law that proving, by clear and convincing evidence, literal infringement by an accused product or process in the prior art invalidates the patent claim, as "that which infringes if later, anticipates if earlier." *Miller v. Eagle Mfg. Co.*, 151 U.S. 186, 203 (1894).

[14] *See* Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793, 802-03 (1988) (refusing to endorse *Brulotte*'s *per se* prohibition because "[s]ome practices that have been characterized as patent misuse when forced on a licensee have escaped this characterization when licensors can prove licensees assumed

(Continued on following page)

At the end of the day, "it's hard to see *what* policy, other than an empty formalism, could possibly justify the *Brulotte* rule of per se illegality." Thomas F. Cotter, *Postexpiration Patent Royalties*, Comparative Patent Remedies, Nov. 5, 2014, http://comparativepatentremedies.blogspot.com/2014/11/postexpiration-patent-royalties.html (emphasis in original). The government's (and Marvel's) defense of *Brulotte* on patent policy grounds is unconvincing precisely because it relies on the kind of "formalistic line drawing," divorced from economic reality, that this Court has said cannot justify *per se* prohibitions. *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 887 (2007) (internal quotation marks omitted); *see also* Dratler Treatise at §4.04[5][d] ("In attempting to draw a bright line outlawing royalties after patent expiration, [*Brulotte*] relies on formal distinctions, rather than economic substance. . ."). No patent policy supports the *per se* rule announced in *Brulotte*.

---

them voluntarily," and thus "legalizing *voluntary* extensions of [the] patent term" nevertheless "makes . . sense") (emphasis in original); Louis Altman, *Is There An Afterlife? The Effect of Patent or Copyright Expiration on License Agreements*, 64 J. Pat. Off. Soc'y 297, 310-12 (1982) (criticizing *Brulotte* for irrebuttably "assuming that patents *always* affect the bargaining relationship by their mere *presence*" so as to "taint an otherwise acceptable business deal") (emphases in original); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 417 (2003) (endorsing application of "a flexible test under equitable principles," rather than a *per se* rule, "when faced with behavior that appears to extend the physical or temporal scope of a patent grant").

b. Patent Policy Compels Overruling *Brulotte* Because Its *Per Se* Rule Suppresses Innovation And Interferes With The Goals Of The Patent System.

Indeed, patent policy, properly understood, favors discarding the rigid *per se* prohibition on collecting patent royalties based on post-expiration use. Why? Because *Brulotte* discourages technological innovation and does significant damage to the American economy, categorically proscribing licensing practices that would provide unique procompetitive benefits and further the goals of the patent system.

As the Justice Department and the FTC have explained, and as the government reiterates in its invitation brief in this case (US CVSG Br. 14), patent royalties on post-expiration use "may permit licensees to pay lower royalty rates over a longer period of time, which reduces the deadweight loss associated with a patent monopoly and allows the patent holder to recover the full value of the patent, *thereby preserving innovation incentives*." 2007 DOJ/FTC Report at 12 (emphasis added); *see also id.* at 118 & 122 (same).[15]

---

[15] *See also* Gilbert & Shapiro at 322 ("Permitting royalties to be paid over a longer term can, under reasonable conditions, reduce the deadweight loss from a patent monopoly. Thus, allocative efficiency considerations should permit a licensor and licensee to agree to longer royalty terms. . . [A]lthough the license agreement may appear to extend the duration of the

(Continued on following page)

The pernicious consequence of *Brulotte*'s *per se* prohibition, then, is that it *suppresses* rather than encourages innovation:

> [*Brulotte*'s] prohibition of post-term royalties causes affirmative social harm. By unnecessarily limiting flexibility in private-ordering regarding timing of payments, it . . . unduly restricts access and exploitation of the patented invention . . [and] needlessly (and ironically) interferes with . . promotion of innovation policy . . .

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marq. Intell. Prop. L. Rev. 1, 42-43 (2011).[16]

---

patent license, its effect is to allow that licensor to recover the same present value royalties, but with a lower social cost."); Ayres & Klemperer, 97 Mich. L. Rev. at 1027 ("Negotiating a lower per-unit royalty in return for a longer royalty time period is likely to reduce the deadweight loss of supra-competitive pricing."); Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 995 ("Spreading out the cost of the license over a longer period of time is . . . efficient because it reduces deadweight loss.").

[16] *See also* John W. Schlicher, *Licensing Intellectual Property: Legal, Business, and Market Dynamics* 196 (John Wiley & Sons, Inc. 1996) ("Schlicher Licensing Treatise") (patent royalties on post-expiration use are "[p]rocompetitive" because "extension of the payment period reduces the cost of producing or using the patent or operating under the license, . . [which in turn] increases the value of the patent and increases innovation"); See & Caprio, 1990 Utah L. Rev. at 846 & n.228 ("*Brulotte* is simply wrong" because it "invalidate[s] a multitude of economically beneficial licensing agreements, thereby discouraging businesses from entering into efficient business

(Continued on following page)

Put another way, *Brulotte* harms innovation because it impairs the ability of contracting parties to balance and allocate the risks of developing and commercializing new patentable technologies, disincentivizing their initial creation, and thus increasing the likelihood that such technologies will never reach patients and consumers.

Two examples illustrate this point.

Federal and state government laboratories, academic research institutions, and research hospitals conduct wide-ranging medical research. Such entities

> frequently grant licenses for early-stage technology that has not been fully developed and that is, as yet, of unknown or speculative commercial value. In such cases, their licensees face a particular risk that no viable product or process will be developed during

---

arrangements . . [and suppressing] incentives to exploit an invention."); Memorial Sloan-Kettering Petition-Stage *Amicus* Brief at 5-9 & 11-13 (*Brulotte*'s "inflexible rule interferes with transactions that are beneficial to the licensor, the licensee, and the general public . . . [and] prevents universities and small businesses (as well as large companies) from devising contractual arrangements that maximize the potential benefit of the universities' technological advancements"); Legal Scholars Petition-Stage *Amicus* Brief at 3, 4-6 ("*Brulotte* hinders the innovation needed to make our economy vibrant" by discouraging "flexible licensing agreements needed for commercialization of inventions."); IPLAC Petition-Stage *Amicus* Brief at 7 ("*Brulotte* causes affirmative social harm.") (internal quotation marks omitted).

> the patent term. This risk is particularly acute with respect to pharmaceutical innovations, where development costs and failure rates are very high and many years of development, clinical trials, and regulatory review are required before the product ever reaches the commercial market.

Brief *Amici Curiae* of Memorial Sloan-Kettering Cancer Center et al. at 12-13 ("Memorial Sloan-Kettering Petition-Stage *Amicus* Brief"). In such situations, "the licensee may strongly prefer to defer a large share of license payments from the development phase (generally within the life of the patent), in favor of royalties on eventual sales that may begin toward the end of the patent term and extend for years thereafter," so that the payment amount is tied to the extent of any eventual commercial success or failure of the product. *Id.* at 6-7. By preventing such willing parties from structuring their licensing transactions in a way that makes the most business sense, *Brulotte* creates a risk that they will not reach agreement at all, discouraging investment in and development of the invention to begin with, and thus increasing the likelihood that life-saving medical treatments will never make it out of the laboratory. Such a result disserves the Nation and the goals of its patent system. *See id.* at 5 & 13.

A similar problem arises when, for example, a licensee attempts to introduce a pioneering technology into a market where the current industry standard already has been the subject of extensive infrastructure

investment. (Imagine, for example, trying to introduce hydrogen cars into a market where everyone uses gasoline-powered ones, and refueling and repair facilities are in place only for the latter.) In such a situation, the improved technology has to overcome a significant barrier to entry, making deferral of royalty accrual critical to the ability of that technology to gain acceptance and get off the ground. Here, too, *Brulotte*'s prohibition on post-expiration royalty accrual impairs innovation incentives and interferes with the goals of the patent system, increasing the likelihood that breakthrough technologies will never see the light of day.[17]

---

[17] *See also* Legal Scholars Petition-Stage *Amicus* Brief at 4-5 (giving additional examples); 3 Milgrim Treatise at §18.05 ("Both licensor and licensee may be better served by an arrangement in which the royalty rate is low but the term of royalty extended. The low royalty rate might help the licensee in the early investment phase and thereby encourage it to take the risks to launch new, and thus inherently risk-prone, technology. The extended life [in turn] might give the licensor the expectation of ultimate reward, if the project thus jointly sponsored takes commercial root. In establishing a royalty arrangement of this character, moreover, both parties would recognize that, at the expiration of the statutory exclusivity period conferred by the patent, others will be free to practice the previously patented invention without any power on the part of the licensor or licensee to prevent it. But astute business people are willing to conclude, in the appropriate situation, that securing a marketing foothold and developing on-line know-how makes sense and that the interests of both licensor and licensee are best served by doing so."); Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 983-984 ("Especially in situations where substantial development of the invention is required before it can be marketed, potential

(Continued on following page)

The government's invitation brief acknowledges that the *Brulotte* rule inflicts economic harm and suppresses innovation (US CVSG Br. 14), but tries to sidestep the implications of that admission by arguing that the rule is "narrow and clear." US CVSG Br.

---

licensees may be unwilling to devote their available funds to paying off licensing fees. Licensees who are just starting out may not even have the money to make the payment. Furthermore, at the time of the negotiation, before the risky business of development and commercialization has been completed successfully, the parties may be unable to accurately determine the benefits that will flow from the invention. In contrast, a running royalty provision insures that the licensee will not have to pay if the invention turns out to be worthless. At the same time, it gives the patent holder the assurance of a fair return on a successful invention."); ABA Section of Antitrust Law, *Intellectual Property Misuse: Licensing And Litigation* 138 (2000) ("With many new products and processes, neither the licensor nor the licensee knows how commercially valuable the product (or process) will turn out to be. This is one of the main reasons why many licenses provide for royalties to be paid out over a period of time rather than a single lump-sum payment: if the product turns out to be a success, both parties will share in the proceeds, but if it turns out to be a failure, the licensee's cost is limited. . . . [¶] Allowing the parties the flexibility to stretch out payments over a longer period simply gives them another option, one that may be economically preferable to both parties. . . [The *Brulotte*] rule, which encourages all payments to be made during the life of the patent, can prevent some of these mutually beneficial deals."); *Scheiber*, 293 F.3d at 1017 ("If royalties are calculated on post-patent term sales, the calculation is simply a risk-shifting credit arrangement between patentee and licensee.") (internal quotation marks omitted); Easterbrook, 42 Hous. L. Rev. at 955 ("Once the patent has expired, there is no market power; and both sides may gain by longer-term royalties that not only share risk but also link payments to an idea's staying power.").

19-20. But that is no answer at all. The government does not explain, for example, how the adverse effects of the *Brulotte* rule on the commercialization of life-saving medical treatments by universities and research hospitals such as the Memorial Sloan-Kettering Cancer Center are in any way mitigated by the supposed narrowness and clarity of *Brulotte*'s *per se* prohibition. Nor does the government demonstrate what alternative contractual arrangements, permitted by *Brulotte,* would allow such research institutions to balance and allocate the risks of developing and commercializing new technology in the same way that permitting accrual of patent royalties directly based on post-expiration use would.

Marvel, in turn, asserts (BIO 8-14) that the adverse impact on innovation of *Brulotte*'s *per se* prohibition on accrual of patent royalties based on post-expiration use ("accrual postponement") is somehow negated because *Brulotte* permits postponing, into the post-expiration period, payment of patent royalties already accrued based on pre-expiration use ("payment postponement"). Simple payment postponement, however, is no substitute for accrual postponement – as the government's invitation brief implicitly acknowledges by not repeating Marvel's argument. Payment postponement, by hypothesis, does not redistribute the risk of product failure between the licensor and the licensee, and thus does not allow parties to balance and allocate the risks of developing and commercializing new technology in the same way that permitting accrual of

patent royalties directly on post-expiration use does. Forcing universities and research hospitals such as the Memorial Sloan-Kettering Cancer Center, and their potential development and commercialization partners, to accrue patent royalties prior to patent expiration, but then allowing them to postpone payment of funds already owed, as Marvel suggests, BIO 13, would do *nothing* to address the development and commercialization risk at issue.

Consequently, because experts in the field agree that *Brulotte*'s *per se* rule discourages technological innovation and interferes with the goals of the patent system – a conclusion grounded in the government's own agency analysis – patent policy, properly understood, favors overruling that decision.

2. Economic Considerations Do Not Justify *Brulotte*'s *Per Se* Rule Because Patent Royalties On Post-Expiration Use Usually Are Procompetitive.

In establishing a *per se* prohibition on patent royalties on post-expiration use, this Court in *Brulotte* did not inquire into the nature or frequency of any anticompetitive effects that might flow from such royalties: it simply assumed the worst. *See* 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-9 (*Brulotte* "created a rule of per se illegality" without requiring "any finding of anticompetitive effects in any market"). In other words, the second, implicit

premise underlying *Brulotte* is that such arrangements are invariably anticompetitive.

A wide-ranging and authoritative consensus has since emerged, however, that this premise, too, is incorrect. Indeed, as the Justice Department and the FTC have acknowledged, and as the government confirms in its invitation brief in this case (US CVSG Br. 14), "[c]ollecting royalties beyond a patent's statutory term can be efficient." 2007 DOJ/FTC Report at 12 & 118 & 122; *see also* Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1630 (1990) ("[A]greements that extend royalty terms simply are not anticompetitive."); Thomas F. Cotter, *Misuse,* 44 Hous. L. Rev. 901, 949 (2007) (little "evidence that the challenged provision [in *Brulotte*] was likely to have any significant impact upon competition."); ABA Section of Antitrust Law, *Intellectual Property Misuse: Licensing And Litigation* 137 (2000) (an "effort by the patent holder to extract payment from the licensee after the patent has expired . . is least harmful to society from an economic perspective" and can be "economically neutral or procompetitive").

In addition to the unique benefits that such licensing arrangements can provide in allowing contracting parties to balance and allocate the risks of developing and commercializing new patentable technologies, *see* Part I.B.1.b., *supra*, patent royalties on post-expiration use have two other procompetitive effects.

First, as the Justice Department and the FTC have pointed out, permitting patent royalties on post-expiration use can lower prices and raise output during the patent term:

> The countervailing benefit to society from allowing the licensor greater freedom to contract is the reduction in royalty rate, and hence prices, during the patent period that occurs as the licensor adjusts the license to induce a licensee to accept the longer term.

2007 DOJ/FTC Report at 118 n.20 (internal quotation marks omitted); *see also* Rochelle Cooper Dreyfuss, *Dethroning* Lear*: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677, 712 n.124 (1986) ("[S]tretching out the computation period decreases royalties during the patent period and may operate to increase output during that time."); Kelley Hershey, Note, *Scheiber v. Dolby Laboratories, Inc.*, 18 Berkeley Tech. L.J. 159, 171 (2003) ("[A] lower royalty rate over a longer period of time allows a company to charge more competitive prices, thereby attracting its customers from competing technologies in the pre-expiration market. [A] lower price may [also] allow more businesses to afford to license and use the technology, thereby increasing competition for the same product in the pre-expiration market.").

Second, permitting patent royalties on post-expiration use also can lower prices and increase competition *after* the end of the patent term despite the fact that the licensee continues to pay royalties, because others need not:

> [I]n the great majority of cases no rival is foreclosed from the market by post-expiration royalties, since the licensee is not restrained from licensing competing technologies either before or after the patents expire. Indeed, to the extent that the user of the machine must pay royalties on expired patents while new entrants into the machine market do not charge such royalties, the practice encourages rather than discourages new entry. . . . As a result, the post-expiration royalties will make the market more, rather than less, attractive to new entrants.

1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-7; *see also* 10 Areeda Treatise ¶1782c.1. at 552 ("The Supreme Court [in *Brulotte*] failed to see that anti-competitive foreclosure is barely conceivable. . ."); *cf. Leegin*, 551 U.S. at 906 ("The purpose of antitrust law . is the protection of competition, not competitors.") (internal quotation marks and emphasis omitted).[18]

---

[18] *See also* Bohannan, 96 Iowa L. Rev. at 517 & n.159 (2011) ("[R]oyalty payments that extend beyond the expiration of a patent do not foreclose access to the public domain any more than do other payments on business debts. . . . To the contrary, requiring royalties on unpatented technology might actually encourage new entrants who are not bound by the license and will be able to undercut the former patentee's price."); Schlicher Licensing Treatise at 196 ("[A post-expiration] royalty provision is highly unlikely to limit competition [after patent expiration]. . . The agreement does not prevent unlicensed companies from entering [the market] in the postexpiration period. . . If such entry occurs, there will be no loss in postexpiration

(Continued on following page)

In the closely-related antitrust context, this Court repeatedly has emphasized that resort "to *per se* rules is confined to restraints . . . that would always or almost always tend to restrict competition and decrease output," i.e., ones that "have manifestly anticompetitive effects," "lack any redeeming virtue," and "would be invalidated in all or almost all instances under the rule of reason." *Leegin*, 551 U.S. at 886-87 (internal quotation marks and ellipses omitted). From this perspective, *Brulotte*'s *per se* prohibition makes little sense: "[t]he small number of cases suggesting anticompetitive possibilities indicates that post-expiration royalty provisions should be treated under a rule of reason, with proof of anticompetitive effects required." 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-7. The failure of *Brulotte*'s second premise thus lends further support to the conclusion that that decision should be overruled.

---

resource allocation. This device does not provide a profitable mechanism to limit competition in the postexpiration period and separately exploit that limitation."); Hershey, 18 Berkeley Tech. L.J. at 171 ("[A]fter expiration of the patent, higher prices from licensees bound by the continued royalty obligation may encourage entry into the market by new firms, thereby increasing competition for the same product in the post-expiration market.").

3. Antitrust Policy Does Not Justify *Brulotte*'s *Per Se* Rule, Which Relies On The Outdated Irrebuttable Presumption That Patents Confer Market Power.

Finally, the third premise underlying *Brulotte* – one rooted in antitrust policy – has, as the government acknowledges (US CVSG Br. 12-14), been undercut both by subsequent Congressional action and a later decision of this Court.

Brulotte – relying on an analogy to tying cases – irrebuttably presumed that merely having a patent conferred market power and inherently allowed the licensor to exercise improper negotiating leverage over the licensee. *See id.*, 379 U.S. at 33, App. 78-79; *see also* 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-9 (*Brulotte* "created a rule of per se illegality that required . [a] presumption that a patent created market power for the purpose of tying arrangements or patent misuse" while demanding no "proof of coercion"); Thomas F. Cotter, *Misuse,* 44 Hous. L. Rev. 901, 924-25 (2007) ("[In] *Brulotte*, the proposition that the patent conferred monopoly power upon the patent owner appears to have been assumed, rather than proven.").

One unfortunate but predictable consequence of this conclusive presumption was that the *Brulotte* rule became a trap for the unwary, and an instrument of injustice when wielded by large, sophisticated licensees to deny small inventors their contractually-guaranteed royalties under circumstances where the

licensors had no actual market power, and had applied no coercion. *See, e.g., Scheiber*, 293 F.3d at 1016 (licensee allowed to avoid payment under *Brulotte* even though licensee itself had suggested royalties on post-expiration use in exchange for lower overall royalty rate); *Indust. Promotion Co. v. Versa Prods., Inc.*, 467 N.W. 2d 168, 172, 173-74 & n.4 (Wis. Ct. App. 1991) (same); *Delaney v. Marchon, Inc.*, 627 N.E.2d 244, 246 (Ill. App. Ct. 1993) (licensee sought to avoid payment on ground that "its own form [license agreement] . . was illegal and unenforceable" under *Brulotte*); *see also* Dratler Treatise at §4.04[5][d] ("[*Brulotte*] conjure[s] up patent 'leverage' where none in fact exists."); Bowman, *Patent and Antitrust Law* at 232 (criticizing *Brulotte* for relying on a "leveraging fallacy").

Indeed, this case presents a similar scenario. As the Ninth Circuit explained, *Brulotte* compelled it to attribute improper negotiating leverage to Petitioners, absolving Marvel – a large business concern – of its financial obligations, merely because these individuals possessed a patent, even though that patent already had been held noninfringed by the district court at the time the agreement was negotiated. Pet. App. 22-23 & 25.

The force of *Brulotte*'s patent-equals-market-power presumption, however, has been severely undercut by two subsequent events.

First, in 1988, Congress enacted a new statutory provision, 35 U.S.C. §271(d)(5), which states that

tying cannot constitute patent misuse "unless, in view of the circumstances, the patent owner has market power in the relevant market." *See* Act of Nov. 19, 1988, Pub. L. No. 100-703, §201, 102 Stat. 4676. This development made "it clear that Congress did not intend the mere existence of a patent [any longer] to constitute the requisite 'market power.'" *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42 (2006).

Second, in 2006, this Court followed suit in *Illinois Tool Works*, and, overruling four of its prior decisions, held that, in the antitrust tying context, "a patent [also] does not necessarily confer market power upon the patentee." *Id.*, 547 U.S. at 45-46.

This change in the law of tying – to which *Brulotte* had analogized patent royalties on post-expiration use – delivered yet another blow to that opinion's already crumbling doctrinal foundation:

> [In finding *per se* unenforceability] solely from the face of the agreement without inquiry into the actual negotiations of the parties, . [*Brulotte* is now] clearly out of step with modern, more realistic assessments of licensing practices. The better approach would address whether, realistically viewed, any wrongful leveraging actually occurred.

Raymond T. Nimmer & Jeff C. Dodd, *Modern Licensing Law* §9:9 (2014) ("Nimmer Treatise"); *see also* Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 987 ("In this new environment, the result in *Brulotte* . is

highly questionable. Without knowing how much economic power the patent conferred, there is no way to determine whether the contractual promise to continue payments beyond the term of the patent was produced by leverage."); Holmes Treatise at §24:4 ("While patent royalty arrangements are not expressly covered [by §271(d)(5)], they would seem to be subject to the same basic logic. Unless the patentee has market power in the economic sense of an ability to affect market prices or output, the fact that it has selected a particular royalty mechanism seems unlikely to affect, let alone injure, competition within the overall market.").[19]

The government acknowledges the fall of the patent-equals-market-power presumption, US CVSG Br. 12-14, but contends that its demise does not matter because "[t]he *Brulotte* rule was never intended to establish a rule of antitrust law." US CVSG Br. 15. But this argument misses the point. As the government concedes, in creating a *per se* prohibition on patent royalties on post-expiration use, *Brulotte* grounded its conclusion, at least in part, in

---

[19] *See also* Landes & Posner at 380-81 (enactment of section 271(d)(5) has rendered *Brulotte* rule "particularly anomalous"); A. Douglas Melamed & Ali M. Stoeppelwerth, *The* CSU *Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law*, 10 Geo. Mason L. Rev. 407, 418 n.44 (2002) (*Brulotte* is "wrongly decided from the vantage point of contemporary antitrust analysis because deferring royalty payments probably does not constitute creation of additional market power.").

"antitrust-type reasoning." US CVSG Br. 15. The obsolescence of that antitrust-based premise, in turn, necessarily undermines the holding of *Brulotte*, and provides yet another reason for overruling that decision.[20]

C. Licensing Arrangements Involving Patent Royalties On Post-Expiration Use Should Instead Be Scrutinized Using A Flexible Rule Of Reason Analysis.

The prevailing view among experts in the patent, licensing, and antitrust fields is that if *Brulotte* is overruled, patent royalties on post-expiration use should instead be scrutinized using a flexible, case-by-case analysis under the rule of reason:

> The fact that payments are to be made . . based on post-expiration uses . . . [does] not

---

[20] Indeed, the position taken by the Antitrust Division and the FTC in the 2007 DOJ/FTC Report that the agencies will, for antitrust enforcement purposes, "review most agreements that have the potential to extend the market power conferred by a valuable patent beyond that patent's expiration pursuant to the rule of reason," *id.* at 122, provides yet another justification for overruling *Brulotte*. On the present state of the law, patent royalties on post-expiration use are treated more leniently for criminal antitrust enforcement purposes than they are in contractual disputes between private parties. As this Court observed in a recent case in which it discarded another outdated categorical competition-law principle, such a scenario suggests that the harsher *per se* rule ought to be abandoned, as "it would be unusual for the Judiciary" to apply "a rule of severity for a special category of . . [civil] cases." *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 45 (2006).

> reflect patent leverage or coercion in and of [itself]. . . . What is at issue is whether the assessment of value is skewed by the presence of market power, by a set of actions beyond the pale of the rule of reason, or by actual coercion. . . . [R]ule of reason analysis, coupled with traditional judicial tools to confront fraud and coercion, . [is] much better suited [to addressing this issue] than *per se* or artificial rules that presume a harm or use of leverage that may not in fact be present.

Nimmer Treatise §13:31; *see also* 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-7 ("The small number of cases suggesting anticompetitive possibilities indicates that post-expiration royalty provisions should be treated under a rule of reason, with proof of anticompetitive effects required."); Holmes Treatise at §24:3 ("[Patent royalties on post-expiration use] should not be held per se illegal, or to constitute per se patent misuse, and should instead be governed by the more flexible rule of reason. ."); Dratler Treatise at §4.04[5][d] ("[The] rule of *Brulotte* is an anachronism with little or no economic justification[,] . . . a lonely *per se* outpost in a rule-of-reason world."); Hershey, 18 Berkeley Tech. L.J. at 160 ("[T]he per se rule against post-expiration royalties should be replaced with a rule of reason approach.").

Marvel argues (BIO 19-20) that because the rule of reason originates in antitrust law, it is not up to the task of policing potential patent misuse. But, here, as elsewhere, "a page of history is worth a volume of logic." *New York Trust Co. v. Eisner*, 256

U.S. 345, 349 (1921). The rule of reason framework has not, for many years, been an antitrust-only test. Rather, the courts of appeals also have, for decades, "invoked antitrust's rule of reason as a determinant in most patent misuse cases." 1 Hovenkamp IP & Antitrust Treatise §3.2e. at 3-12; *see also id.* §3.2 at 3-6 – 3-13 (surveying cases in this area). Relying on the rule of reason if *Brulotte* is overruled would thus simply harmonize the analysis of patent royalties on post-expiration use with existing patent misuse law.

Under a rule of reason analysis, the court would first ask whether the patentee to whom royalties on post-expiration use are payable had market power in the relevant market at the time the agreement was negotiated, as "it may not be possible to exercise any leverage at all from a patent, if that patent does not confer any market power upon its owner." *County Materials Corp. v. Allan Block Corp.*, 502 F.3d 730, 735 (7th Cir. 2007); *see also* 1 Hovenkamp IP & Antitrust Treatise §3.2e. at 3-12.1 ("[P]roving misuse will require an accused infringer to demonstrate that the patentee has power in a relevant market."); 2007 DOJ/FTC Report at 12 ("The starting point for evaluating practices that extend beyond a patent's expiration is analyzing whether the patent in question confers market power."); *id.* at 122 ("The first step in the Agencies' analysis is to assess whether the patent at issue confers market power upon its holder, and if so, whether the patent holder's conduct unreasonably extends that market power beyond the patent's statutory term."). While "the exclusionary right

granted by a patent may be relevant to the market power inquiry, demonstrating misuse will require a full-fledged economic inquiry into the definition of the market, barriers to entry, and the like." 1 Hovenkamp IP & Antitrust Treatise §3.2e. at 3-12.1; *see also* DOJ/FTC Report at 12 ("[C]ollecting royalties beyond the statutory term . [does] not have the potential to cause competitive concern unless the patent in question is associated with market power, i.e., when the patent holder can profitably maintain prices above, or output below, competitive levels for a significant period of time.") (internal quotation marks omitted).

If the licensee meets its threshold burden of demonstrating the patentee's market power,

> 'the finder of fact must [next] decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was i sed, and the restraint's history, nature and effect.'

County Materials, 502 F.3d at 735 (quoting *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997)); *see also* 1 Hovenkamp IP & Antitrust Treatise §3.2e. at 3-12.1 ("[P]roving patent misuse will [also] typically involve . . proof that the patentee's conduct was an unreasonable restraint on competition. This in turn means that the conduct had an anticompetitive effect that outweighs any procompetitive benefits that flow from it. . [A] rule

of reason inquiry should involve a detailed analysis of the procompetitive benefits as well as the anticompetitive harms of any given act. Thus, patentees will be given an opportunity to justify their conduct or licensing restrictions."); 2007 DOJ/FTC Report at 122 (in scrutinizing patent royalties on post-expiration use, "the Agencies consider . whether a firm is exercising . . . market power beyond the patent's statutory term so as to prevent expansion by those already in the market, or deter entry of substitute products or processes.").

In this case, of course, application of such a rule of reason analysis on remand would not need to go beyond the first step, as Kimble and Grabb quite obviously did not have any market power in the superhero role-playing toy market at the time the agreement was negotiated in 2001 (or, for that matter, at any other time).

II. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte*.

Finally, the doctrine of *stare decisis* does not counsel against reconsideration of *Brulotte*.

1. It is common ground among the parties in this case (BIO 8) and the government (US CVSG Br. 9) that *Brulotte* did not interpret the *words* of any statutory or constitutional provision. *See also Scheiber*, 293 F.3d at 1018 (*Brulotte* is "a free-floating product of a misplaced fear of monopoly," rather than being an "interpretation of the patent clause of the

Constitution, or of the patent statute or any other statute."); 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-13 (noting that "the language of the Patent Act nowhere condemns . a contract" providing for patent royalties on post-expiration use).

Marvel and the government nonetheless argue (BIO 21-22 & 24; US CVSG Br. 7-9) that overturning *Brulotte* is a matter for Congress, not this Court, because *Brulotte* is a "statutory precedent." Specifically, focusing on this Court's recent decision in *Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407, 2411 (2014), the government asserts that the atextual judge-made rule announced in *Brulotte* nonetheless must be treated as "statutory" for *stare decisis* purposes, and thus may not be reconsidered absent "special justification," because it is a "substantive doctrine" of patent law derived from the policy of limited patent terms. US CVSG Br. 7-9 (internal quotation marks omitted).

There are two significant problems with this position.

First, this argument proves too much. The Court's opinion in *Brulotte* simultaneously cited *two* limited patent term provisions – Art. I, §8, cl. 8 of the Constitution, which "authorizes Congress to secure 'for limited times' to inventors 'the exclusive right' to their discoveries," and 35 U.S.C. §154, which, at the time, provided for a seventeen-year patent term. *Brulotte*, 379 U.S. 30, Pet. App. 74-75. To the extent that the *per se* rule announced in *Brulotte* is statutory

for *stare decisis* purposes because it was fashioned against the background principle of limited patent terms embodied in section 154, that *per se* rule, by parity of reasoning, is also at least partly constitutional for *stare decisis* purposes, as it was equally fashioned against the same background principle of limited patent terms embodied in Art. I, §8, cl. 8. And in constitutional cases, of course, this Court has never hesitated to reconsider prior decisions, as "correction through legislative action is practically impossible." *Payne v. Tennessee*, 501 U.S. 808, 828 (1991) (internal quotation marks omitted).

Second, Petitioners have, in any event, provided "special justification" for overruling *Brulotte* that extends beyond a mere explanation for why that "precedent was wrongly decided." *Halliburton*, 134 S. Ct. at 2407. As Petitioners and their *amici* have demonstrated at length, *see* Parts I.B.1.b. & I.B.2., *supra*, *Brulotte* damages the American economy and suppresses innovation because the licensing practices it forbids would provide unique procompetitive benefits – something that has not previously been brought to the Court's attention.

"*Stare decisis* is not an inexorable command; rather, it is a principle of policy and not a mechanical formula of adherence to the latest decision." *Payne*, 501 U.S. at 828 (internal quotation marks omitted). This Court has not, in similar circumstances, "hesitated to overrule an earlier decision and settle a matter of continuing concern, even though relief might have been obtained by legislation." *United*

States v. Reliable Transfer Co., 421 U.S. 397, 409 n.15 (1975). Nor has this Court been reluctant to overrule other decisions espousing atextual patent doctrines when they had proven to be misguided.[21] Where, as here, a new, and largely undisputed, understanding of the harmful real-world economic consequences of *Brulotte*'s *per se* rule has emerged since the Court last considered the issue, nothing compels "plac[ing] on the shoulders of Congress the burden of the Court's own error" – even assuming, *arguendo*, that *Brulotte* is susceptible to Congressional correction. *Monell v. Dep't of Soc. Servs.*, 436 U.S. 658, 695 (1978) (internal quotation marks omitted).

2. In another variation on the "Congress-knows-best" theme, Marvel (BIO 23) and the government (US CVSG Br. 11) argue that Congress has somehow ratified *Brulotte* by considering in 1988, but not enacting, a proposed bill, H.R. 4086. *See Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House*

---

[21] *See, e.g., Lear, Inc. v. Adkins*, 395 U.S. 653, 663-71 (1969) (overruling prior decision and rejecting the common-law doctrine of patent licensee estoppel); *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 321 (1971) (overruling prior decision and rejecting the "judge-made doctrine" of mutuality of estoppel in patent litigation); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917) (overruling judge-made patent misuse rule).

Committee on the Judiciary, 100th Cong. (May 11, 1988) ("H.R. 4086 Hearing").[22]

This argument is unconvincing for two reasons.

First, H.R. 4086 would not simply have replaced *Brulotte*'s rule of *per se* illegality with rule of reason analysis. It would, instead, have created a complicated two-tiered rule that went further. Under H.R. 4086, if the agreement that established patent royalties on post-expiration use was executed at the time the subject patent had already issued, such royalties would have been *per se legal*. If, on the other hand, such an agreement was executed before patent issuance, then the royalties would have been subject to rule of reason analysis – even after the subject patent issued. *See* H.R. 4086 Hearing at 3-4 (text of proposed bill) (patent misuse defined as "unreasonably entering into a royalty agreement that provides for payments beyond the expiration of the term of a patent, except when the parties have mutually agreed to such payments after the issuance of the patent."). The fact that Congress did not enact this unduly complicated and far-reaching proposal sheds no light on its views about the simpler and more measured step of replacing *Brulotte*'s *per se* prohibition with a flexible rule of

---

[22] *Available at* http://babel.hathitrust.org/cgi/pt?id=pst.000014967702.

reason analysis for all patent royalties on post-expiration use.[23]

Second, this Court, in any event, has warned against "the danger of placing undue reliance on the concept of congressional 'ratification,'" *Patterson v. McLean Credit Union*, 491 U.S. 164, 175 n.1 (1989), and repeatedly has reconsidered its own precedent notwithstanding Congressional inaction. Thus, for example, in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 41, 45-46 (2006), this Court overruled four prior decisions and rejected "the patent-equals-market-power presumption" in the antitrust tying context, notwithstanding respondent's argument in that case that Congress had considered, but failed to enact, such a change on several occasions. *See id.*, Brief for Respondent Independent Ink, Inc. at 34-35 & n.14 (enumerating six proposed but unenacted bills addressing the issue).[24] Similarly, in *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 320, 327 n.17, 339-42 (1971), this Court, in overruling a prior decision and rejecting the "judge-made doctrine" of mutuality of estoppel in patent litigation, refused to find Congressional ratification of

---

[23] The other proposed and enacted legislation cited by Marvel (BIO 23-24 & nn.7-8) and the government (US CVSG Br. 10-11) is even less relevant, as it had nothing specifically to do with patent royalties on post-expiration use.

[24] This brief is available at http://www.americanbar.org/content/dam/aba/publishing/preview/publiced_preview_briefs_pdfs_05_06_04_1329_Respondent.authcheckdam.pdf.

the prior rule despite "the introduction of several bills" to effect relevant changes, congressional hearings on the issue, and an intervening reform of the patent statute. Congress' failure to act here similarly presents no bar to overruling *Brulotte*.

3. In the closely-related antitrust context, this Court consistently has emphasized that reconsideration of *per se* prohibitions particularly is warranted when the relevant government agencies and the academic literature, in light of intervening experience and analysis, come to the conclusion that application of a more nuanced approach such as the rule of reason is appropriate:

> *Stare decisis*, we conclude, does not compel our continued adherence to the *per se* rule [at issue]. As discussed earlier, respected authorities in the economics literature suggest the *per se* rule is inappropriate, and there is now widespread agreement that [the challenged practices] . can have procompetitive effects. . . It is also significant that both the Department of Justice and the Federal Trade Commission – the antitrust enforcement agencies with the ability to assess the long-term impacts of . [these practices] – have recommended that this Court replace the *per se* rule with the traditional rule of reason.

Leegin, 551 U.S. at 900 & 907 (overruling prior decision to the contrary); *see also Illinois Tool Works*, 547 U.S. at 33 (overruling several prior decisions and rejecting *per se* rule in view of the "extensive scholarly comment and a change in position by the

administrative agencies charged with enforcement of the antitrust laws"); *State Oil Co. v. Khan*, 522 U.S. 3, 15, 18, 21 (1997) (overruling prior decision and holding that "there is insufficient economic justification for *per se* [rule at issue]" in light of the "considerable body of scholarship" showing that "the theoretical underpinnings" of that rule have been "called into serious question"); *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 47-48, 57-59 (1977) (overruling prior decision and substituting rule of reason analysis for *per se* rule in view of fact that the "great weight of scholarly opinion has been critical of the [prior] decision."). Given the authoritative consensus in the academic and professional literature that *Brulotte* should be overruled, and the criticism of that decision by the United States Patent and Trademark Office, the Antitrust Division of the Justice Department, and the Federal Trade Commission prior to the Solicitor General's change of position in the invitation brief in this case, *Brulotte*'s *per se* rule should be reconsidered for the same reason.

Marvel (BIO 22 n.6) and the government (US CVSG Br. 10 n.2) nonetheless contend that the reasoning of these antitrust decisions does not apply to *Brulotte* because "the Court has treated the Sherman Act as a common-law statute." *Leegin*, 551 U.S. at 899. But the doctrine of patent misuse also originated, and, to a significant extent still exists, as a body of common law rules. *See* 1 Hovenkamp IP & Antitrust Treatise §3.2a (discussing history of patent misuse doctrine); *id.* at §3.3 (describing particular types of conduct that may constitute patent misuse).

Consequently, as one academic commentator has noted in discussing this case, "the 'patent-misuse' issue [in *Kimble v. Marvel Enterprises* is] similar to the antitrust questions that the Court so commonly arrogates to itself." Ronald Mann, *Is The Patent Act More Like The Sherman Act Or The Securities Laws?* SCOTUSblog, Dec. 4, 2014, http://www.scotusblog.com/2014/12/is-the-patent-act-more-like-the-sherman-act-or-the-securities-laws.[25]

4. In some instances, overruling a prior decision implicates reliance concerns. This is not one of them. Overruling *Brulotte* will open the door to procompetitive, innovation-supporting licensing practices going forward. At the same time, the only existing agreements likely to be impacted are either those – like the one at issue in this case – where the parties agreed to patent royalties based on post-expiration use because they were unaware of *Brulotte*, Pet. App. 7 n.3, or those where one of the parties purposely entered into such an agreement in the hope of later avoiding its contractual obligations on the basis of *Brulotte*. In either case, a change in the law that would require parties to live up to their

---

[25] Marvel also contends (BIO 21) that *Brulotte* should be retained because it articulates a "bright-line" rule. If this were a sufficient basis for preserving poorly-reasoned decisions, no case announcing a *per se* prohibition – a quintessential bright-line rule – could ever be reconsidered. The fact that, on the contrary, this Court has, in recent years, consistently replaced *per se* prohibitions with rule of reason analysis (US CVSG Br. 13-14) fully answers Marvel's argument.

voluntarily-undertaken contractual obligations can hardly be said to upset their reasonable expectations.

Against this background, Marvel's assertion (BIO 20-21) – unendorsed by the government – that overruling *Brulotte* would somehow disrupt licenses that do *not* provide for patent royalties based on post-expiration use is demonstrably illogical. By hypothesis, lifting *Brulotte*'s *per se* prohibition cannot have any effect on agreements that do not run afoul of it.

CONCLUSION

The judgment of the court of appeals should be vacated, and the case remanded with directions for the lower courts to evaluate the agreement in this case under the rule of reason.

Respectfully submitted,

ANTONIO R. DURANDO

ROMAN MELNIK*
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN
& WEATHERWAX LLP

*Also Lecturer in Law
USC GOULD SCHOOL OF LAW
699 Exposition Blvd.
Los Angeles, CA 90089

January 28, 2015

Counsel for Petitioners

RESPONDENT'S BRIEF

Supreme Court, U.S.
FILED
FEB 27 2015
OFFICE OF THE CLERK

No. 13-720

IN THE

Supreme Court of the United States

STEPHEN KIMBLE AND
ROBERT MICHAEL GRABB,
Petitioners,

v.

MARVEL ENTERPRISES, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR RESPONDENT

SETH P. WAXMAN
Counsel of Record
PAUL R.Q. WOLFSON
THOMAS G. SAUNDERS
MATTHEW GUARNIERI
DANIEL AGUILAR
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

QUESTION PRESENTED

Whether this Court should overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), a statutory precedent that Congress has left unchanged for half a century even while modifying other patent misuse doctrines.

CORPORATE DISCLOSURE STATEMENT

Marvel Entertainment, LLC (Marvel) is a successor by merger to Marvel Entertainment, Inc., which was formerly known as Marvel Enterprises, Inc. Marvel is wholly owned by The Walt Disney Company, the shares of which are publicly traded. No publicly held corporation owns 10% or more of the stock of The Walt Disney Company.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

CORPORATE DISCLOSURE STATEMENT ii

TABLE OF AUTHORITIES vi

INTRODUCTION 1

STATUTORY PROVISIONS 3

STATEMENT 3

A. Prior Litigation And Settlement 3

B. Proceedings Below 6

SUMMARY OF ARGUMENT 10

ARGUMENT 12

I. PETITIONERS FAIL TO DEMONSTRATE ANY SPECIAL JUSTIFICATION FOR DEPARTING FROM *STARE DECISIS* 12

A. *Brulotte* Is A Narrow And Workable Rule That Implements The Statutory Patent Term 14

B. *Stare Decisis* Weighs Heavily Here Because Congress Has Considered And Rejected Proposals To Modify Or Overrule *Brulotte* 18

1. *Brulotte* is a statutory decision that could be abrogated or altered by Congress 18

2. Congress considered but ultimately declined to adopt changes to *Brulotte* while modifying other aspects of patent misuse 21

TABLE OF CONTENTS—Continued

Page

3. Any future modification of *Brulotte* is best left to Congress 28

C. *Brulotte* Has Not In Any Measurable Way Harmed Innovation Or Inventors 30

D. Overruling *Brulotte* Would Upset The Settled Expectations Of Licensing Parties 32

II. POST-EXPIRATION ROYALTIES VIOLATE THE POLICIES OF THE PATENT ACT 33

A. *Brulotte* Was Correctly Decided As A Matter Of Patent Policy 34

B. Petitioners Misunderstand And Misconstrue The Premises Of *Brulotte* 41

1. *Brulotte* does not rest on the fallacy that post-expiration royalties extend the right to exclude 42

2. *Brulotte*'s prohibition on post-expiration royalties is economically sound 43

3. Developments in antitrust law have not eroded *Brulotte*'s foundations 48

C. Overruling *Brulotte* Would Exacerbate The Problem Of Royalty Stacking And Would Invite Nuisance Litigation 50

III. THE COURT SHOULD NOT ADOPT A RULE OF REASON STANDARD 52

TABLE OF CONTENTS—Continued

Page

A. The Court Should Reject Petitioners' Invitation To Import The Antitrust Rule Of Reason Into This Context 52

B. If *Brulotte* Is Modified, The Patentee Should Be Required To Rebut The Presumption That It Has Improperly Extended Its Patent Rights 54

CONCLUSION 57

TABLE OF AUTHORITIES

CASES

Page(s)

Arizona v. *Maricopa County Medical Society*, 457 U.S. 332 (1982) 52

Aronson v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979) 8, 16, 17, 24, 44, 54

Basic, Inc. v. *Levinson*, 485 U.S. 224 (1988) 19

Bell Atlantic Corp. v. *Twombly*, 550 U.S. 544 (2007) 52

Bilski v. *Kappos*, 561 U.S. 593 (2010) 19

Blonder-Tongue Laboratories, Inc. v. *University of Illinois Foundation*, 402 U.S. 313 (1971) 21

Bonito Boats, Inc. v. *Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) 34, 38

Brulotte v. *Thys Co.*, 379 U.S. 29 (1964) ..... *passim*

Burnet v. *Coronado Oil & Gas Co.*, 285 U.S. 393 (1932) 13

California Dental Association v. *FTC*, 526 U.S. 756 (1999) 53

Compco Corp. v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) 38

Dr. Miles Medical Co. v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911) 20

eBay Inc. v. *MercExchange, LLC*, 547 U.S. 388 (2006) 42, 51

Edelman v. *Jordan*, 415 U.S. 651 (1974) 13

TABLE OF AUTHORITIES—Continued

Page(s)

Edward Katzinger Co. v. *Chicago Metallic Manufacturing Co.*, 329 U.S. 394 (1947) 37, 39

Eldred v. *Ashcroft*, 537 U.S. 186 (2003) 19

Festo Corp. v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002) 13

FTC v. *Actavis, Inc.*, 133 S. Ct. 2223 (2013) 43, 53

Halliburton Co. v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398 (2014) ..... *passim*

Held v. *Kaufman*, 694 N.E.2d 430 (N.Y. 1998) 31

Hilton v. *South Carolina Public Railways Commission*, 502 U.S. 197 (1991) 13, 32

Illinois Tool Works Inc. v. *Independent Ink, Inc.*, 547 U.S. 28 (2006) 26, 48, 49

John R. Sand & Gravel Co. v. *United States*, 552 U.S. 130 (2008) 19

Landgraf v. *USI Film Products*, 511 U.S. 244 (1994) 13

Lear, Inc. v. *Adkins*, 395 U.S. 653 (1969) 21, 37, 38, 39

Leegin Creative Leather Products, Inc. v. *PSKS, Inc.*, 551 U.S. 877 (2007) 20, 30

Marvel Entertainment LLC v. *Kimble*, 533 F. App'x 749 (9th Cir. 2013) 10

Mayo Collaborative Services v. *Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012) 53

Medtronic, Inc. v. *Mirowski Family Ventures, LLC*, 134 S. Ct. 843 (2014) 55

TABLE OF AUTHORITIES—Continued

Page(s)

Merck & Co. v. *Reynolds*, 559 U.S. 633 (2010) 29

Michigan v. *Bay Mills Indian Community*, 134 S. Ct. 2024 (2014) 13, 29

Motion Picture Patents Co. v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917) 21

Patterson v. *McLean Credit Union*, 491 U.S. 164 (1989) 13

Payne v. *Tennessee*, 501 U.S. 808 (1991) 12, 13, 32

Pfaff v. *Wells Electronics, Inc.*, 525 U.S. 55 (1998) 34

Runyon v. *McCrary*, 427 U.S. 160 (1976) 26

Scott Paper Co. v. *Marcalus Manufacturing Co.*, 326 U.S. 249 (1945) 35, 36, 37, 39

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964) 38

Shirley Polykoff Advertising, Inc. v. *Houbigant, Inc.*, 374 N.E.2d 625 (N.Y. 1978) 5

Singer Manufacturing Co. v. *June Manufacturing Co.*, 163 U.S. 169 (1896) 35

Texas v. *New Jersey*, 379 U.S. 674 (1965) 44

United States v. *Brown University*, 5 F.3d 658 (3d Cir. 1993) 53

United States v. *International Business Machines Corp.*, 517 U.S. 843 (1996) 30

United States v. *Johnson*, 481 U.S. 681 (1987) 20

TABLE OF AUTHORITIES—Continued

Page(s)

Zenith Radio Corp. v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969) 15, 46

DOCKETED CASES

Blonder-Tongue Laboratories, Inc. v. *University of Illinois Foundation*, No. 70-338 (U.S.) 25

Illinois Tool Works Inc. v. *Independent Ink, Inc.*, No. 04-1329 (U.S.) 25

Kimble v. *Marvel Enterprises, Inc.*, No. 08-cv-372 (D. Ariz.) 4, 7

Kimble v. *Toy Biz, Inc.*, No. 97-cv-557 (D. Ariz.) 4, 5

Marvel Entertainment LLC v. *Kimble*, No. 10-cv-792 (D. Ariz.) 10

STATUTES, REGULATIONS, AND LEGISLATIVE MATERIALS

15 U.S.C. § 78j(b) 19

21 U.S.C. § 355(c)(3)(E)(ii) 27, 48

35 U.S.C.
§ 101 19
§ 154 ..... *passim*
§ 156 ..... 27, 47
§ 271(d) 21, 223, 25, 48
§ 284 42

17 C.F.R. § 240.10b-5 19

Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 27

TABLE OF AUTHORITIES—Continued

Page(s)

Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) 20

Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, 102 Stat. 4674, 4676 (1988) 25

Patent Term Guarantee Act of 1999, Pub. L. No. 106-113, app. I, 113 Stat. 1501, 1501A-557 28

Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809 (1994) 28

H.R. Rep. No. 98-857 (1984) 27

S. Rep. No. 100-83 (1987) 22

S. Rep. No. 100-492 (1988) 22

Innovation and Patent Law Reform: Hearings Before the Subcomm. on Courts, Civil Liberties, & the Admin. of Justice of the H. Comm. on the Judiciary, 98th Cong. (1984) 27, 28

Patent Licensing Reform Act of 1988: Hearing Before the Subcomm. on Courts, Civil Liberties, & the Admin. of Justice of the H. Comm. on the Judiciary, 100th Cong. (1988) 23, 24, 26

Health Care Reform Issues: Hearings Before the H. Comm. on the Judiciary, 104th Cong. (1996) 52

TABLE OF AUTHORITIES—Continued

Page(s)

134 Cong. Rec. (1988)
3261-3262 ..... 21, 31
28,007-28,011 21
30,688-30,689 23
32,293-32,296 23
32,470-32,471 23

H.R. 4070, 99th Cong. (1986) 22

H.R. 4808, 99th Cong. (1986) 22

H.R. 557, 100th Cong. (1987) 22

H.R. 4086, 100th Cong. (1988) 22, 23, 36, 33

H.R. 4972, 100th Cong. (1988) 24, 25

S. 2525, 99th Cong. (1986) 22

S. 2944, 99th Cong. (1986) 22

S. 438, 100th Cong. (1987) 22, 26

S. 635, 100th Cong. (1987) 22

S. 1200, 100th Cong. (1987) 21, 22, 24, 26

OTHER AUTHORITIES

ABA Section of Antitrust Law, *Intellectual Property and Antitrust Handbook* (2007) 15

ABA Section of Antitrust Law, *Intellectual Property Misuse* (2000) 17

ABA Section of Antitrust Law, *The Rule of Reason* (1999) 52

Altman, Louis, *Is There an Afterlife?*, 64 J. Pat. Off. Soc'y 297 (1982) 38, 40

TABLE OF AUTHORITIES—Continued

Page(s)

Baxter, William F., *Legal Restrictions on Exploitation of the Patent Monopoly*, 76 Yale L.J. 267 (1966) 46

Beggs, A.W., *The Licensing of Patents under Asymmetric Information*, 10 Int'l J. Indus. Org. 171 (1992) 45

Berk, Jonathan, et al., *Fundamentals of Corporate Finance* (2d ed. 2012) 16

Comment, *Validity of Patent License Provisions Requiring Payment of Post-Expiration Royalties*, 65 Colum. L. Rev. 1256 (1965) 45

Cotter, Thomas F., *Misuse*, 44 Hous. L. Rev. 901 (2007) 16

Dratler, Jr., Jay, *Licensing of Intellectual Property* (2015) 17, 31

DOJ & FTC, *Antitrust Enforcement and Intellectual Property Rights* (2007) 15, 46, 50

Easterbrook, Frank H., *The Limits of Antitrust*, 63 Tex. L. Rev. 1 (1984) 52

Einhorn, Harold, & Eric E. Bensen, *Patent Licensing Transactions* (rev. ed. 2014) 31

Epstein, David M., *Eckstrom's Licensing in Foreign and Domestic Operations* (2015) 32

Feldman, Robin C., *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003) 40, 43

TABLE OF AUTHORITIES—Continued

Page(s)

Hovenkamp, Herbert, et al., *IP and Antitrust* (2d ed. 2015) 16, 53, 54

Jager, Melvin F., *Licensing Law Handbook* (2013) 31

Kahneman, Daniel, *Maps of Bounded Rationality, in Les Prix Nobel* 449 (2003), *available at* http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2002/kahnemann-lecture.pdf 46

Lemley, Mark A., & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117 (2013) 50, 51

Lemley, Mark A., & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991 (2007) 50

Lim, Daryl, *Patent Misuse and Antitrust*, 20 Mich. Telecomm. & Tech. L. Rev. 299 (2014) 44

Lim, Daryl, *Patent Misuse and Antitrust Law* (2013) 43

Love, Brian J., *An Empirical Study of Patent Litigation Timing*, 161 U. Pa. L. Rev. 1309 (2013) 51

Merges, Robert P., *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793 (1988) 40

Miceli, Thomas J., *The Economic Approach to Law* (2004) 44

TABLE OF AUTHORITIES—Continued

Page(s)

Milgrim, Roger M., & Eric E. Bensen, *Milgrim on Licensing* (rev. ed. 2015) 17

Nimmer, Raymond T., & Jeff C. Dodd, *Modern Licensing Law* (2014) 32

Nordhaus, Raymond C., *Patent License Agreements* (1967) 32

PTO, *U.S. Patent Statistics: Calendar Years 1963-2013* (2014), *available at* http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.pdf 30

Restatement (Second) of Contracts (1981) 49

Sag, Matthew, & Kurt Rohde, *Patent Reform and Differential Impact*, 8 Minn. J.L. Sci. & Tech. 1 (2007) 45

Schlicher, John W., *Patent Law, Legal and Economic Principles* (2d ed. 2012) 16

Shapiro, Carl, *Navigating the Patent Thicket, in* 1 Adam B. Jaffe et al., *Innovation Policy and the Economy* 119 (2001) 50

U.S. Patent No. 5,072,856 (issued Dec. 17, 1991) 3, 4

Watanabe, Yuichi, *Patent Licensing and the Emergence of a New Patent Market*, 9 Hous. Bus. & Tax L.J. 445 (2009) 30

IN THE

Supreme Court of the United States

No. 13-720

STEPHEN KIMBLE AND
ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR RESPONDENT

INTRODUCTION

In *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), this Court interpreted the statutory patent term as circumscribing not only the period of exclusive patent rights but also the time within which royalties may accrue for use of those rights. The clear and narrow rule set out in the decision has proven entirely workable for more than half a century. *Brulotte* forbids the enforcement of a license only insofar as the license requires royalties for the use of a patented invention after the patent ends. Parties have relied on that background rule for drafting countless licenses, creating reliance interests that will be upset if it is now overruled. Moreover,

Brulotte has been left unchanged by Congress despite specific proposals to modify it, despite the enactment of other changes to patent misuse law, and despite sustained and repeated attention to the Patent Act, including changes to the patent term.

In light of that history, the case should begin and end with *stare decisis*. "Before overturning a long-settled precedent," this Court "require[s] 'special justification,' not just an argument that the precedent was wrongly decided." *Halliburton Co.* v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407 (2014). Petitioners fail to make such a showing. The academic criticism that pervades petitioners' brief—much of it predicated on misreading *Brulotte* and misunderstanding its grounding in patent, not antitrust, law—is neither new nor undisputed. Congress considered the same arguments and was unmoved.

Contrary to petitioners' claim, there is not and has never been a consensus among commentators, courts, or government officials that *Brulotte* was misguided, much less that it should be judicially overruled. Congress heard from supporters as well as detractors of *Brulotte*, just as this Court has in the amicus briefs. Furthermore, Congress heard no evidence—and petitioners have adduced none—to support the sweeping claim that *Brulotte* is harming the American economy. Innovation, patenting, and patent licensing have all flourished in the years since *Brulotte* was decided.

Brulotte is thus accomplishing its purpose. By forbidding licensing arrangements in which the toll of royalties continues to accrue for use of an invention after a patent expires, the decision guarantees that the public receives the full benefit of the patent bargain: free and unrestricted public use of the patented idea, including

by licensees, at the end of the patent term. It fits comfortably with other precedents that further the same statutory policy, including the settled rule that a patent holder may not continue to collect royalties for the use of a patented invention after the patent is declared invalid, no matter what contractual promises to the contrary the patent holder extracted from its licensees.

Like other decisions sounding in patent policy, *Brulotte* reflects this Court's understanding of the Patent Act and the balances that Congress has struck in the Act. If *Brulotte* ever needs to be modified or updated to better reflect those policies, Congress is the appropriate institution to do so. The judgment below should be affirmed.

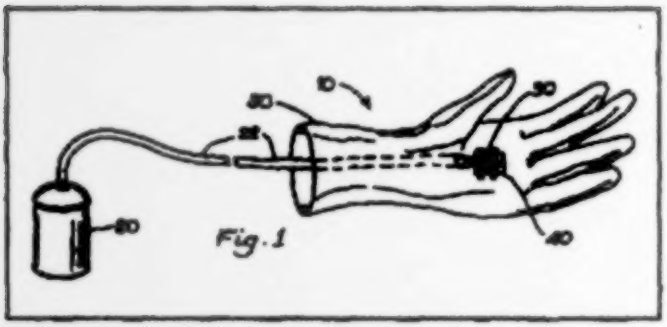
STATUTORY PROVISIONS

The appendix reproduces the current version of 35 U.S.C. § 154, as well as the prior versions applicable when *Brulotte* was decided and when Kimble obtained the patent at issue.

STATEMENT

A. Prior Litigation And Settlement

In 1990, petitioner Kimble applied for a patent on a toy for role-playing as "a spider person" by shooting foam string "from the palm of [the] hand." U.S. Patent No. 5,072,856, col. 3, ll. 30-31 (issued Dec. 17, 1991). Kimble's patented toy was designed to evoke Spider-Man, Marvel's iconic Super Hero renowned for his spider super-powers and web-slinging. The toy consisted of a glove with a valve connected to a canister of foam:



Id. fig. 1; *see id.* col. 3, ll. 35-51. The '856 patent expired no later than May 25, 2010. Pet. App. 49.

In 1997, Kimble sued Toy Biz, Inc. over the sale of a Spider-Man toy called the Web Blaster. *Kimble* v. *Toy Biz, Inc.* (*Kimble I*), No. 97-cv-557 (D. Ariz.). The Web Blaster was "a role play toy" for emulating Spider-Man "by shooting foam string." Pet. App. 49. Kimble alleged that Toy Biz was willfully infringing the '856 patent and was liable for treble damages. Kimble also alleged that the president of Toy Biz had orally agreed at a 1990 meeting to pay him royalties if the company used his invention or related toy ideas and that the company had breached that agreement. First Am. Compl. ¶¶11-31, *reproduced in Kimble* v. *Marvel Enters., Inc.* (*Kimble II*), No. 08-cv-372, Dkt. 49-3 (D. Ariz. July 1, 2009).

The district court granted Toy Biz summary judgment on Kimble's patent infringement claim, holding that under the doctrine of equivalents, Kimble could not show that the Web Blaster possessed an equivalent to the '856 patent's glove or its holder for housing and actuating the toy's valve. Order 7-11, Dkt. 101, *Kimble I* (Feb. 17, 2000). Kimble's contract claim was tried to a jury, which found that Toy Biz had breached an oral agreement and awarded Kimble royalties on "net product sales" of the Web Blaster. Pet. App. 50. Toy Biz's post-trial motion for judgment as a matter of law was

denied. Op. 6, Dkt. 175, *Kimble I* (Dec. 26, 2000).[1] Toy Biz appealed from the jury's verdict, and Kimble cross-appealed on his patent infringement claim.

The parties settled in 2001, before any briefing on appeal. Pet. App. 50. By that time, Kimble had assigned an interest in the '856 patent to his lawyer, Robert Grabb (JA24), who is also a petitioner in this Court; Toy Biz had acquired Marvel Entertainment Group out of bankruptcy; and the companies had merged into Marvel Enterprises. The settlement was thus struck between "Marvel Enterprises, Inc." and "'the Patent Holders,'" Kimble and Grabb. JA16.

To "avoid the further expense and distraction of litigation" (JA17), Marvel purchased the '856 patent from Kimble and Grabb without admitting any liability for infringement or breach of contract (JA18, 21). In exchange, Marvel agreed to pay Kimble and Grabb $516,214.62, plus

> 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 21, 2000. For purposes of this paragraph ..., "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as

---

[1] Toy Biz argued in part that the alleged oral contract violated New York's statute of frauds because it could not be performed within one year. Op. 2. In denying the motion, the district court stated that Toy Biz could have "ended its obligation" within one year "by permanently terminating sale of the toy." *Id.* 4. However, ceasing to sell toys within the first year of the alleged contract would not have terminated a royalty obligation for future years. *See, e.g., Shirley Polykoff Adver., Inc.* v. *Houbigant, Inc.*, 374 N.E.2d 625, 626-627 (N.Y. 1978).

> sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

JA18-19. The settlement does not contain an express end date for royalties, which may have been because the expected lifecycle for most toys is short. It was Grabb and Kimble, not Marvel, who proposed this "concept of a final deal," including royalties for all future sales "based on the patent." JA26.

The parties executed a separate assignment of the '856 patent. JA24-26. As a condition of settlement, the parties withdrew their cross-appeals and stipulated to a revised judgment, which the district court entered, dismissing Kimble's action with prejudice and vacating the jury verdict. JA18; Pet. App. 50. Thus, contrary to petitioners' suggestion (at 5), there is no final adjudication that the oral agreement asserted by Kimble existed or is enforceable.

Petitioners were paid more than $6 million in royalties during the term of the '856 patent. Pet. App. 7.

B. Proceedings Below

In 2007, disputes arose between the parties about the limits of the settlement agreement. Kimble and Grabb maintained that they were entitled to full patent royalties on products even when web-shooting was only one of several functions the toy performed. Pet. App. 68-69. In petitioners' view, multi-function toys and "all other Web Blaster products currently on the market would infringe the Patent," thus triggering Marvel's royalty obligation. JA28. Although the patent would expire in 2010, petitioners also maintained that they were entitled to patent royalties "for many many years

to come," "as long as there is a Web Blaster toy" of any type on the market. JA30.

Petitioners ultimately sued in state court for breach of the settlement agreement. Marvel removed the action to federal court. JA2. In its answer, Marvel counterclaimed for a declaratory judgment that its royalty obligations did not extend beyond the expiration of the '856 patent. Answer ¶¶31-35, 46-49, Dkt. 12, *Kimble II* (Aug. 4, 2008).

Petitioners then reversed course. Recognizing that "[o]nce the ['856] Patent expires, there can be no infringement" and thus no royalties for "product sales that would infringe the Patent," petitioners sought to reinterpret the settlement agreement as providing for both patent and non-patent royalties, the latter owed for the use of unpatented toy ideas Kimble allegedly disclosed at the 1990 meeting. Pls.' Mot. for Summ. J. 4-5, Dkt. 49, *Kimble II* (July 1, 2009).

Marvel moved for summary judgment under *Brulotte*. Def.'s Mot. for Summ. J. 7, Dkt. 54, *Kimble II* (July 15, 2009). In invoking *Brulotte*, Marvel accepted petitioners' characterization of the settlement agreement as contemplating royalties for the use of both patented and unpatented ideas. *Id.* 13-14 & n.12.[2] Even so construed, however, the royalty obligation was unenforceable under *Brulotte* and settled circuit law. *Id.* 12-17.

---

[2] Marvel understood the agreement as transferring both the '856 patent and whatever unpatented ideas Kimble claimed to have disclosed at the 1990 meeting. Pet. App. 56-57. For years, Marvel paid petitioners royalties for web-shooting role-play toys in a good faith effort to honor the settlement, without undertaking any infringement analysis.

A magistrate judge recommended that Marvel's motion be granted (Pet. App. 53-60), and the district court agreed (*id.* 34-37). The district court recognized that an agreement to pay royalties for the use of both patented and unpatented intellectual property may extend beyond the expiration of the patent without violating *Brulotte*, but only if there is a discernible "distinction between the royalties" for the two kinds of rights, such as a lower royalty rate in the post-expiration period. *Id.* 35 (discussing *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979)). The court found no such distinction in the settlement. *Id.* 37. It thus held that "the royalty provision is unenforceable after the expiration of the ['856] patent." *Id.*

The parties subsequently stipulated to the dismissal with prejudice of all other remaining claims and counterclaims, and Kimble appealed. JA12.

The court of appeals affirmed. The court articulated the rule set forth by *Brulotte*, *Aronson*, and later decisions as follows:

> [A] license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate. This is because—in the absence of a discount or other clear indication that the license was in no way subject to patent leverage—we presume that the post-expiration royalty payments are for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*.

Pet. App. 18.[3] The court determined that the settlement agreement "did not include a discounted rate" post-expiration or any "other clear indication that the [post-expiration] royalty was in no way subject to patent leverage." *Id.* 20, 21. Thus, "*Brulotte*'s presumption must apply," and the obligation to pay royalties ends when the patent expires. *Id.* 23.

In so holding, the court of appeals speculated that "Kimble's primary leverage" in the settlement was "the jury verdict," rather than the '856 patent. Pet. App. 22. The court did not consider that the jury verdict rested on an oral agreement that violated the statute of frauds, whereas the infringement question was premised on a case-specific application of the doctrine of equivalents and would be reviewed *de novo* on appeal. *Supra* pp.4-5 & n.1. In any event, the court correctly recognized that *Brulotte* provides "bright-line rules" (Pet. App. 16) obviating any need to undertake the "impossible" task of attempting to determine what the parties would have agreed to absent any improper patent leverage (*id.* 23). Although the court also suggested that application of *Brulotte* "arguably deprive[d] Kimble of part of the benefit of his bargain" (*id.* 23-24), Kimble presented no evidence that the parties would have agreed to a higher royalty rate had they accounted for *Brulotte*.[4]

---

[3] The agreement in this case was not a license but rather an assignment. JA24-26. In opposing certiorari, Marvel noted that petitioners had never attempted to distinguish *Brulotte* on that basis. Opp. 5 n.2. Petitioners have now definitively waived any argument along those lines by agreeing that *Brulotte* "applies to patent assignments" with full force. Pet. Supp. Br. 10.

[4] Petitioners say (at 6) that they were unaware of *Brulotte* at the time they proposed their "concept of a final deal" for the set-

On the same day that the court of appeals affirmed the district court decision in this case, it ordered further proceedings in related litigation, still ongoing, in which Kimble is claiming a breach of the alleged 1990 oral agreement. *Marvel Entm't LLC* v. *Kimble*, 533 F. App'x 749, 750 (9th Cir. 2013). In the parallel litigation, petitioners now claim that the settlement agreement at issue in this case required "royalties only for the [Web Blaster] that was litigated" in 1997, plus infringing products, and that it is the alleged 1990 oral agreement that requires post-expiration non-patent royalties. Kimble Aff. ¶¶9-12, Dkt. 62-1, *Marvel Entm't LLC* v. *Kimble*, No. 10-cv-792 (D. Ariz. July 15, 2014).

SUMMARY OF ARGUMENT

Petitioners' request to overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), should be rejected on *stare decisis* grounds. Petitioners fail to meet the demanding standard this Court requires to overrule a precedent. *Brulotte* interpreted the limited patent term, 35 U.S.C. § 154, and the congressional policies reflected in the Patent Act as forbidding enforcement of a patent license insofar as the license requires royalties for use of the patent after the patent expires. That rule is clear and narrow and leaves open ample flexibility for licensing parties to structure royalty payments over time.

Stare decisis applies with particular force here because *Brulotte* has been left undisturbed by Congress for more than fifty years. During that time, Congress made other changes to patent misuse law but chose not to modify *Brulotte*, despite considering the same argu-

---

tlement agreement (JA26). Marvel informed the court of appeals at oral argument that it also did not take account of *Brulotte* during the negotiations. Pet. App. 7 n.3.

ments that petitioners now present to this Court. Congress also repeatedly altered the Patent Act—including adjusting the patent term—in ways that implicitly accounted for *Brulotte*. Congress's judgment not to modify *Brulotte* while making these other changes should be respected. Its decision is unsurprising in light of the complete absence of evidence that *Brulotte* is impeding innovation, patenting, or patent licensing.

Stare decisis also weighs heavily because *Brulotte* governs contract and property rights and has given rise to reliance interests that would be upset if it is overruled. In light of its clear rule, the parties to a patent license do not need to specify the end date for royalties and may instead reasonably rely on *Brulotte*'s background rule that royalties cease to accrue by law when the patent expires. Overruling *Brulotte* could revive long-dead licenses and spur needless and wasteful litigation over licenses without an express end date for royalties.

Even setting aside *stare decisis*, *Brulotte* was correctly decided as a matter of patent policy. Its rule against post-expiration royalties is a sensible implementation of the limited statutory patent term. An essential part of the bargain at the heart of the patent system is that, when the patent term ends, all rights associated with the patent terminate and the patented idea is committed to the public domain for the free and unrestricted use of all. The same policy concerns animate other well-settled patent precedents, including the rule that a licensee may not be required to continue to pay royalties after a patent is invalidated. Private parties are properly forbidden from attempting to evade those congressional judgments.

Petitioners' argument that the "three premises" of *Brulotte* have been eroded by later developments rests on a misconception of *Brulotte*'s foundations. The decision condemns pre-expiration misuse of the patent to extract post-expiration royalties; it does not, as petitioners claim, mistakenly equate post-expiration royalties with a temporal extension of the monopoly right to exclude. *Brulotte* also does not rest on the economic assumptions that post-expiration royalties are anticompetitive or that a patent confers market power. Those are antitrust concepts. Fundamentally, however, *Brulotte* sounds in patent policy. Subsequent developments in antitrust law do not show that *Brulotte* was wrongly decided, much less that it should be overruled. If anything, the modern problems of royalty stacking and nuisance litigation by non-practicing entities have made *Brulotte* even more relevant and necessary.

Finally, if the Court were to reconsider and modify *Brulotte*, the Court should reject petitioners' request to import the rule of reason into this context. Agreements for post-expiration royalties should remain at least presumptively unlawful because they violate the policies of the Patent Act.

ARGUMENT

I. PETITIONERS FAIL TO DEMONSTRATE ANY SPECIAL JUSTIFICATION FOR DEPARTING FROM *STARE DECISIS*

Petitioners' request to jettison *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), fails to meet the demanding standard for departing from the principle of *stare decisis*. *Stare decisis* "promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process." *Payne* v. *Tennessee*, 501 U.S. 808, 827 (1991). As

such, *stare decisis* is "'of fundamental importance to the rule of law.'" *Hilton* v. *South Carolina Pub. Rys. Comm'n*, 502 U.S. 197, 202 (1991). This Court will not depart from precedent absent "'special justification.'" *Michigan* v. *Bay Mills Indian Cmty.*, 134 S. Ct. 2024, 2036 (2014).

Stare decisis and the important interests it serves demand far more than criticism of a decision's merits. That a precedent might have been wrongly decided "as an initial matter" is not itself a "special justification" for overturning settled law. *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 175 n.1 (1989); *see also Edelman* v. *Jordan*, 415 U.S. 651, 671 n.14 (1974) ("'[I]n most matters it is more important that the applicable rule of law be settled than that it be settled right. ... This is commonly true even where the error is a matter of serious concern, provided correction can be had by legislation.'" (quoting *Burnet* v. *Coronado Oil & Gas Co.*, 285 U.S. 393, 406 (1932) (Brandeis, J., dissenting))).

Stare decisis applies with "special force" to decisions Congress may alter through further legislation. *Halliburton Co.* v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2411 (2014) (internal quotation marks omitted). Considerations of *stare decisis* are also "at their acme in cases involving property and contract rights." *Payne*, 501 U.S. at 828; *cf. Landgraf* v. *USI Film Prods.*, 511 U.S. 244, 271 (1994) ("contractual or property rights" are "matters in which predictability and stability are of prime importance"). Both principles come together in patent cases, like this one, where this Court has warned about the particular need to "be cautious before adopting changes that disrupt ... settled expectations." *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002).

Each of these considerations favors hewing to *Brulotte* and leaving any changes to that doctrine in the hands of Congress.

A. *Brulotte* Is A Narrow And Workable Rule That Implements The Statutory Patent Term

1. *Brulotte* presented the question whether, under the Patent Act, a patent holder may charge royalties for a licensee's use of the invention "in the post-expiration period," after "the patent has entered the public domain." 379 U.S. at 33. The Court concluded that patent royalties for post-expiration use of an invention are incompatible with the purposes of the patent laws.

In *Brulotte*, Thys Co. licensed its patented hop-picking machines to farmers in return for royalty payments based on the quantity of hops picked using the machine. This Court reviewed Thys's judgment to collect unpaid royalties and concluded that the judgment must be reversed "insofar as it allows royalties to be collected" for using the machines after all applicable patents had expired. *Brulotte*, 379 U.S. at 30.

The starting point for the Court's analysis was the fact that patents are issued "for limited times." *Brulotte*, 379 U.S. at 30. A patent holder's rights to the invention expire as Congress ordains in 35 U.S.C. § 154. That statutory termination of patent rights strikes a balance between the inventor's period of patent protection and the interests of the public in benefiting freely from an invention after the patent expires, as envisioned by the Constitution's Patent Clause. *Brulotte*, 379 U.S. at 30-31. At the end of the patent term, the patented invention becomes "public property." *Id.* at 31. Attempts to continue to collect royalties on the use of an invention committed to the public domain are,

Brulotte concluded, contrary "'to the policy and purpose of the patent laws,'" as reflected in the limited patent term. *Id.*; *see infra* pp.34-35.

2. *Brulotte*'s reach is narrow and directly proportionate to its purpose. It prohibits only royalties based on the use of a patented invention occurring after the patent's term has expired. *Brulotte* thus preserves ample flexibility for the licensing parties. Parties have free rein to structure royalties as they see fit during the patent term to meet their commercial needs. This may include deferring royalties, establishing minimum or maximum royalty payments, or making the payments contingent on certain outcomes as a means of dealing with uncertainty and risk.

In addition, as the Court recognized in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969), the parties to a patent license may agree to calculate the total sum of royalty payments based on the use or sale of the patented invention during the statutory term, but to spread the payments of those royalties over a period of time that extends past the patent's expiration. *See Brulotte*, 379 U.S. at 31 (contemplating "deferred payments for use during the pre-expiration period"); *see also* ABA Section of Antitrust Law, *Intellectual Property and Antitrust Handbook* 496 (2007) (licensees may "satisfy payment obligations on a deferred schedule that extends beyond the life of the patent"); DOJ & FTC, *Antitrust Enforcement and Intellectual Property Rights* 117 (2007) (*2007 DOJ/FTC Report*) (*Brulotte* affects "only agreements in which royalties actually *accrue* on post-expiration use").[5]

---

[5] If the parties agree on the present value of the patent license, they can likewise agree to many different payment options that are all equivalent to that agreed-upon value (lump-sum, royal-

This ability to defer payment for use of a patent during its term is often overlooked by *Brulotte*'s critics. The petition did not recognize it. Pet. 22-27. Although petitioners now appear to acknowledge the point (at 35-36), it is not clear their amici do, and petitioners continue to endorse without qualification many academic articles that misunderstand *Brulotte*'s narrow rule (*e.g.*, *id.* 4, 30 & n.16, 33 n.17).[6]

Brulotte's limited reach was confirmed in *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979), which petitioners do not even acknowledge. In *Aronson*, a license negotiated while a patent application was pending provided that if the patent were granted within five years, the licensee would pay a 5% royalty on product sales, but otherwise, the licensee would pay a 2.5% royalty indefinitely. *Id.* at 259. As this Court explained, in those circumstances, the 2.5% royalty obligation clearly was not for use of the patent after its term—it applied only if no patent issued—and non-patent royalties do not implicate *Brulotte*'s narrow rule. *Id.* at 264-265.

---

ties paid during the patent term, royalty payments based on use during the patent term but paid later, etc.). *See, e.g.*, Berk et al., *Fundamentals of Corporate Finance* 85-99 (2d ed. 2012) (discussing how to value different payment systems).

[6] *See, e.g.*, Center for IP Research Br. 3-4 (wrongly stating that *Brulotte* prohibits amortized payments that extend beyond the patent term); 1 Hovenkamp et al., *IP and Antitrust* § 23.2b (2d ed. 2015) (wrongly reading *Brulotte* as "limit[ing] the ability of patentees to amortize royalty payments over longer periods than the remaining life of the patent"); 2 Schlicher, *Patent Law, Legal and Economic Principles* § 11:27 (2d ed. 2012) (wrongly criticizing *Brulotte* for preventing parties from "spreading royalties over a longer period" than the patent term); Cotter, *Misuse*, 44 Hous. L. Rev. 901, 939 n.169 (2007) (wrongly advising parties, "[i]n the wake of *Brulotte*," to "structure their transactions so that all royalties attributable to the patent are paid before the end of the term").

Taken together, *Brulotte* and *Aronson* permit parties to contract for a "hybrid" license that extends beyond the expiration of the patent term, provided that the license clearly distinguishes between royalties for use of a patented invention during the patent's term, and royalties for the post-expiration use of unpatented ideas, such as trade secrets, know-how, or other intellectual property. *See* 3 Milgrim & Bensen, *Milgrim on Licensing* § 18.07 & n.19 (rev. ed. 2015); ABA Section of Antitrust Law, *Intellectual Property Misuse* 82 (2000); Opp. 11 (collecting cases).

3. *Brulotte*'s reach is limited in another respect: *Brulotte* acts only as a shield, not a sword. 1 Dratler, *Licensing of Intellectual Property* § 5.04 (2015). It does not provide an affirmative cause of action. Unlike some other patent misuse doctrines, it does not render the patent itself unenforceable against third parties. *Brulotte* only operates to limit the enforceability of a licensee's royalty obligation, and only insofar as the license requires royalties to use the patent after the patent expires. 379 U.S. at 30.

Further, despite petitioners' efforts to transform this dispute into an antitrust case (Pet. Br. 13-18, 41-45), *Brulotte* does not give rise to antitrust liability, including the threat of treble damages or criminal sanctions. Instead, *Brulotte* implements core considerations of patent law and policy, which are distinct from antitrust concerns, and sometimes point in different directions. *See infra* pp.42-43; AIPLA Br. 4-13; Feldman Br. 19-24.

To be sure, *Brulotte* analogized a patent holder's effort to obtain post-expiration royalties to the antitrust concept of market tying—that is, tying together the pre- and post-expiration markets for use of the pa-

tent—and its "*per se*" condemnation of post-expiration royalties evokes the language of antitrust law. *See Brulotte*, 379 U.S. at 32-33. But that analogy came only on the heels of *Brulotte*'s discussion of patent law and policy. The case arose as an effort to enforce a license in state court, not an antitrust suit, and this Court has never since understood it to create an antitrust rule. The decision's analogy, in dicta, is hardly a special justification to overrule it.

B. *Stare Decisis* Weighs Heavily Here Because Congress Has Considered And Rejected Proposals To Modify Or Overrule *Brulotte*

1. *Brulotte* is a statutory decision that could be abrogated or altered by Congress

Brulotte rests squarely on an interpretation of the statutory patent term. The operative reasoning of the decision cited the relevant statute, 35 U.S.C. § 154, and interpreted it as reflecting a considered policy judgment about the time within which royalties may accrue for the use of a patent. *Brulotte*, 379 U.S. at 30-31; *see infra* pp.34-35 (discussing patent policy rationale). If Congress disagrees with that interpretation of its policies, it may modify or overrule *Brulotte*.

Petitioners argue (at 49-50) that *Brulotte* is not directly commanded by the text of § 154, but even if that were so, that does not lessen the force of *stare decisis*. When "Congress may overturn or modify any aspect of" the decision, the "ordinary principles of *stare decisis*" apply. *Halliburton*, 134 S. Ct. at 2411.[7]

---

[7] Petitioners also argue (at 50-51) that *Brulotte* may be more readily overruled because it cited both the Patent Act and the Patent Clause and is thus "at least partly constitutional." Nothing in this Court's precedent supports that suggestion. Many decisions

For example, the *Halliburton* petitioners urged the Court to overrule the fraud-on-the-market presumption of reliance recognized in *Basic, Inc.* v. *Levinson*, 485 U.S. 224 (1988). That presumption is not directly commanded by the text of the statute *Basic* interpreted, 15 U.S.C. § 78j(b), or by the implementing regulation, 17 C.F.R. § 240.10b-5. Indeed, the Court acknowledged that "the presumption is a judicially created doctrine." *Halliburton*, 134 S. Ct. at 2411. Nevertheless, the Court concluded that the "'special force'" of statutory interpretation *stare decisis* applied to the *Basic* presumption because "'Congress remains free to alter what'" the Court has done. *Id.* (quoting *John R. Sand & Gravel Co.* v. *United States*, 552 U.S. 130, 139 (2008)).

The Court has taken the same approach to 35 U.S.C. § 101, which states that "any new and useful process, machine, manufacture, or composition of matter" is eligible for patent protection. The Court has interpreted § 101 to exclude from patent-eligibility "laws of nature, physical phenomena, and abstract ideas." *Bilski* v. *Kappos*, 561 U.S. 593, 601 (2010). Those exceptions are "not required by the statutory text," but are nevertheless "a matter of statutory *stare decisis*." *Id.* at 601-602. Congress may alter them but has not done so.

In similar fashion, the Court adhered to the *Feres* doctrine, which bars service members from suing the

---

cite provisions of the Constitution, but they are not thereby transformed into interpretations of it. *Brulotte*'s application has always been tied to the patent term set by statute, which does not remotely approach the outer bounds of Congress's authority to authorize patents for "limited Times." *See Eldred* v. *Ashcroft*, 537 U.S. 186, 199 (2003) (copyright term of life plus 70 years is still "'limited'"). Congress remains free to abrogate or modify *Brulotte* at any time, and thus *stare decisis* applies with special force.

government for torts arising out of activity incident to service. *United States* v. *Johnson*, 481 U.S. 681, 686 (1987). Although the *Feres* bar is arguably unsupported by the text of the Federal Tort Claims Act, *id.* at 695 (Scalia, J., dissenting), the Court nevertheless concluded that it would not deviate from the forty-year-old doctrine when "Congress 'possesses a ready remedy' to alter a misinterpretation of its intent," *id.* at 686.

Like the precedents confirmed in *Halliburton*, *Bilski*, and *Johnson*, *Brulotte* has stood for decades without modification by Congress. The principle of *stare decisis* commands its retention absent a "special justification" that petitioners have not offered.

These examples all stand in sharp contrast to the Court's approach to the Sherman Act, which the Court has understood as "a common-law statute" for which *stare decisis* "is not as significant" as in other statutory domains. *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 899 (2007). The Patent Act is not such a statute and the Court has never treated it that way. Nor has Congress: Since enacting the Patent Act in 1952, Congress has substantively amended it on thirty-three occasions, most recently with a comprehensive overhaul in the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). By contrast, the Sherman Act has been amended only nine times since its enactment over 124 years ago, and four of those amendments were simply to raise the fines and criminal punishments for existing antitrust violations. For *stare decisis* purposes, the Patent Act is nothing like the Sherman Act.

Petitioners also attempt (at 52 & n.21) to place *Brulotte* on par with what they characterize as "atextual patent doctrines" that the Court has overruled, but

their cases are wide of the mark. *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670-673 (1969), actually confirms *Brulotte* and rests on the same patent policy concerns. *Infra* pp.37-39. *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313 (1971), cites *Brulotte* approvingly, *id.* at 344 n.40, and concerns broadly applicable common law preclusion questions, not simply the Patent Act, *id.* at 320-327. In *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502, 517 (1917), the Court overruled a recent tying decision that Congress had enacted a statute to abrogate. None of these cases provides a basis for ignoring or weakening *stare decisis* here.

2. Congress considered but ultimately declined to adopt changes to *Brulotte* while modifying other aspects of patent misuse

Stare decisis has particular force here, for Congress engaged extensively with *Brulotte* and decided not to modify it. This is not a case in which Congress overlooked the decision in question, or in which legislative changes were proposed but never actively considered. To the contrary, in 1988 Congress enacted detailed reforms to patent misuse law. At the time, Congress considered several proposals to modify or overrule *Brulotte*. Ultimately, it did neither. Congress chose to go only so far and no further, and that judgment should be respected.

a. In the 100th Congress, changes to the law of patent misuse were the focus of sustained legislative attention. Several different approaches were considered in both chambers.

S. 1200—In May 1987, Senator DeConcini introduced S. 1200, which proposed amending the patent misuse provisions in 35 U.S.C. § 271(d) to require proof

that "in view of the circumstances" the patent holder's licensing practices, actions, or inactions "violate the antitrust laws" as a prerequisite to a finding of patent misuse. S. 1200, 100th Cong. § 201 (1987).[8] The Judiciary Committee's Report accompanying S. 1200 noted that the bill drew its impetus, in part, from Judge Posner's criticism of several patent misuse cases, including *Brulotte*. S. Rep. No. 100-83, at 65 (1987).

S. 438—Although S. 1200 was not enacted into law, the Senate amended a second bill, which would have also required proof of an antitrust violation before any finding of patent misuse. S. 438, 100th Cong. (as amended Aug. 25, 1988). Again, the accompanying Committee Report stated that the bill was responding to patent misuse decisions, specifically naming *Brulotte* among them. S. Rep. No. 100-492, at 16 (1988). S. 438 passed the Senate on October 4, 1988. 134 Cong. Rec. 28,011 (1988).

H.R. 4086—Representative Kastenmeier introduced the House's own patent misuse bill in March 1988. H.R. 4086, 100th Cong. (1988). Instead of requiring an antitrust violation as a prerequisite to finding patent misuse, H.R. 4086 identified six specific licensing and sale practices that would constitute patent misuse, and six practices that would not. H.R. 4086 § 2. Under those proposed changes, "unreasonably entering into a royalty agreement that provides for payments beyond the expiration of the term of a patent" would have constituted "illegal extension" of the patent and

---

[8] Similar measures addressing patent misuse and antitrust implications for patent licensing had been considered several times before. *See, e.g.*, S. 2525, 99th Cong. (1986); S. 2944, 99th Cong. (1986); H.R. 4070, 99th Cong. (1986); H.R. 4808, 99th Cong. (1986); H.R. 557, 100th Cong. (1987); S. 635, 100th Cong. (1987).

would have rendered the patent unenforceable in infringement litigation—a harsher sanction than *Brulotte* itself provides. *Id.* (proposed 35 U.S.C. § 271(d)(1), (d)(2)(D)). But the bill would have provided a safe harbor for agreements entered into "after the issuance of the patent" and "mutually agreed" to by both parties, rather than imposed on the licensee. *Id.* Representative Kastenmeier explained that the bill was intended to modify "the Supreme Court decision in *Brulotte* v. *Thys*, 379 U.S. 29 (1964)," by permitting "an exception which authorizes ... post-expiration royalties when the parties, for their convenience, agree to such an approach after the issuance of a patent." 134 Cong. Rec. 3261-3262 (1988).

During the House hearing on H.R. 4086, witnesses raised the same policy arguments against *Brulotte* that petitioners and their amici now make and offered the same proposed changes. *See Patent Licensing Reform Act of 1988: Hearing Before the Subcomm. on Courts, Civil Liberties, & the Admin. of Justice of the H. Comm. on the Judiciary*, 100th Cong. 11-12, 35-36, 39, 47-48 (1988) (*1988 Hearing*).

Other witnesses, however, opposed the change. Professor Herbert Schwartz, the author of a leading patent treatise and an active practitioner, argued that patent misuse ought to be retained in its current form. In particular, he argued that a patent holder's attempt to expand the "temporal scope of his or her exclusivity beyond the fixed life of the patent," in violation of *Brulotte*, "is uncalled for regardless of whether his or her actions are pro-competitive or anti-competitive." *1988 Hearing* 134-135 (statement). Professor Schwartz also explained that Congress could address any need for additional incentives for innovation by "increasing

the scope of the patent grant," rather than "decreasing the scope of patent misuse." *Id.* 135.

Professor Robert Merges agreed, explaining that *Brulotte*, *Aronson*, and the circuit cases implementing them tend to "strike down practices that ... have significant anticompetitive effects—and, notably, only limited social benefits." *1988 Hearing* 189 (statement). Although he expressed some support for legislative reforms, he also noted that "Congress has determined that 17 years of exclusivity," which was the patent term at the time, "provides enough incentive" to stimulate the desired level of innovation and that "[p]arties are simply not free to circumvent" Congress's limits through licensing arrangements. *Id.* Professor Merges further explained that "licensing activity [was] vigorous" under existing law. *Id.* 169; *see also id.* 131 (statement of Prof. Schwartz).

After this hearing, the House subcommittee continued to work to "narrow the provisions of [S. 1200] ... to meet the objectives urged by the proponents of reform without undoing the entirety of patent misuse." 134 Cong. Rec. 32,294 (1988) (statement of Rep. Kastenmeier).

H.R. 4972—In October 1988, the Senate passed an amended version of a House bill, H.R. 4972, 100th Cong. (as amended Oct. 14, 1988), that incorporated the Senate's proposal to require an antitrust violation as a prerequisite to finding any form of patent misuse. 134 Cong. Rec. 30,689 (1988); *see id.* at 32,471 (statement of Sen. Leahy). The House, however, refused to pass "such a sweeping and inflexible view" of patent misuse. *Id.* at 32,295 (statement of Rep. Kastenmeier). Instead, the House would only agree to a compromise bill that eliminated the possibility of patent misuse for refusing

to license a patent and that imposed a market-power requirement before misuse may be found for tying a patent license or the sale of a patented product to the purchase of another product or patent license. *Id.*

The compromise version of H.R. 4972 ultimately enacted into law—the Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, § 201, 102 Stat. 4674, 4676 (1988) (amending 35 U.S.C. § 271(d))—thus represented a "careful balance of the interests of proprietors" and the public, "while simultaneously furthering the goals of stimulating the dissemination of innovation through the freer use of licensing agreements for patented products." 134 Cong. Rec. 32,295-32,296 (1988) (statement of Rep. Kastenmeier). Senator DeConcini, who had favored broader changes, observed that the compromise bill "leaves the rest for us to address in the future." *Id.* at 32,471.

The extensive congressional debate and the enactment of a carefully calibrated compromise powerfully rebut petitioners' argument for overruling *Brulotte*. Congress heard the arguments on all sides, including the arguments for abrogating or modifying *Brulotte*, and decided to leave *Brulotte* undisturbed. Were Congress to change its mind in the future, it could always revisit this decision. But the ball is squarely in Congress's court and should remain there.

b. Congress's decision not to disturb *Brulotte* while altering other aspects of patent misuse is a far cry from the examples offered by petitioners (at 54-55), where Congress failed to take any substantive action. *See* U.S. Br. 41-43, *Blonder-Tongue Labs., Inc.* v. *University of Ill. Found.*, No. 70-338 (U.S. Jan. 8, 1971) (all bills proposed to modify rule of estoppel died in committee); Resp. Br. 35 n.14, *Illinois Tool Works Inc.* v.

Independent Ink, Inc., No. 04-1329 (U.S. Sept. 28, 2005) (similar).[9] Rather, because Congress enacted the 1988 Patent Misuse Reform Act while "specifically consider[ing] and reject[ing]" an alternative that would have overruled *Brulotte*, "[t]here could hardly be a clearer indication of congressional agreement with" *Brulotte*'s rule. *Runyon* v. *McCrary*, 427 U.S. 160, 174-175 (1976).

Petitioners also miss the mark when they contend (at 53-54) that the 1988 Act is irrelevant because Congress did not consider the *exact* change they now advocate. This Court has never required perfect overlap in the manner petitioners suggest. In any event, some proposals, such as S. 1200 and S. 438, would have required an antitrust violation as a prerequisite to finding patent misuse (including misuse based on post-expiration royalties), which is equivalent to the standard petitioners propose (at 45-49). The competing House proposal, H.R. 4086, would have abrogated *Brulotte* where the parties mutually agreed to post-expiration royalties after issuance of the patent and would otherwise have judged those royalties on their reasonableness. *Supra* pp.22-23. Far from being "unduly complicated" (Pet. Br. 53), that approach would have provided "clearer ... guidelines" than wholesale "reliance on the amorphous 'rule of reason,'" *1988 Hearing* 172 (statement of Prof. Merges).

Evaluating the wisdom of such competing proposals and the need, if any, for reform is quintessentially a task for Congress. The 1988 Act reflected Congress's considered judgment not to alter *Brulotte*. The

---

[9] Moreover, *Illinois Tool Works Inc.* v. *Independent Ink, Inc.* is an inapt comparison because it concerns the Sherman Act, where *stare decisis* has less force. 547 U.S. 28, 32 (2006); *see supra* p.20.

Court should decline petitioners' invitation to override that judgment.

c. Congress has also enacted other significant changes to patent law against the backdrop of *Brulotte*. In particular, Congress has twice modified the patent term since *Brulotte*, effectively extending the period for charging royalties. For each reform, Congress carefully adjusted the statutory period to achieve a balance between proper incentives for innovation and the public's interest in exploiting an invention. Not only did Congress make those changes without altering *Brulotte*, but the balance it struck implicitly accounts for *Brulotte* and would be disturbed if *Brulotte* were overruled.

In 1984, Congress passed the Drug Price Competition and Patent Term Restoration Act, Pub. L. No. 98-417, 98 Stat. 1585 (Hatch-Waxman Act), which recognized that many patented new drugs cannot be commercialized until the sometimes-lengthy FDA review process is complete. H.R. Rep. No. 98-857, at 17 (1984). To offset that regulatory delay, Congress permitted patent holders to apply for a commensurate extension of the patent term, not to exceed five years. 35 U.S.C. § 156. It also created periods of non-patent exclusivity of up to seven-and-a-half years. 21 U.S.C. § 355(c)(3)(E)(ii).

With these new patent extensions and exclusivity periods, Congress sought to ensure "that research intensive companies will have the necessary incentive to increase their research and development activities," H.R. Rep. No. 98-857, at 41, while still protecting the interests of the "production-intensive sectors of the pharmaceutical industry," who might be harmed by an excessively long patent term, *Innovation and Patent*

Law Reform: Hearings Before the Subcomm. on Courts, Civil Liberties, & the Admin. of Justice of the H. Comm. on the Judiciary, 98th Cong. 386 (1984) (*1984 Hearings*) (statement of Gerald Mossinghoff, Asst. Secretary & Comm'r of Patents & Trademarks).[10]

Congress again altered the patent term in 1994 to move away from a term of 17 years from patent issuance to a term of 20 years from the earliest filing date. Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532(a)(1), 108 Stat. 4809, 4983-4984 (amending 35 U.S.C. § 154). Congress also put in place a system of patent term adjustments to compensate for certain types of delay at the PTO. Patent Term Guarantee Act of 1999, Pub. L. No. 106-113, app. I, § 4402(a), 113 Stat. 1501, 1501A-557 to 1501A-560.

There was no groundswell to modify or overrule *Brulotte* at any juncture in any of these legislative processes. In fact, during hearings on the Hatch-Waxman Act, amicus the Association of the Bar of the City of New York expressly asked Congress *not* to abrogate *Brulotte*'s prohibition on post-expiration royalties. *1984 Hearings* 2600-2601.

3. Any future modification of *Brulotte* is best left to Congress

All of the many changes that Congress has made to the Patent Act since 1964—including the 1988 patent misuse reforms, the changes to the patent term described above, and the comprehensive overhaul of the patent system in the America Invents Act—were made

---

[10] Congress thus responded to the same sorts of concerns now raised by, for example, amicus Memorial Sloan Kettering (at 11). *See also infra* pp.47-48 (discussing life-sciences industry).

with *Brulotte* in place. Thus, every time Congress has returned to the Act to recalibrate the incentives for optimal innovation, it has struck a balance that implicitly assumes that royalties on post-expiration use are forbidden. *See, e.g.*, *Merck & Co.* v. *Reynolds*, 559 U.S. 633, 648 (2010) (Congress is presumed to be "aware of relevant judicial precedent" when it legislates). Overruling *Brulotte* now will upset those congressional policy judgments. The decision may be more relevant to some legislative judgments than others, but at this point it is embedded in the law, and a change in direction risks unintended consequences.

Congress is in a far better position to consider those consequences and to fine-tune the balances and compromises at the heart of the patent system. Unlike this Court, Congress does not face the blunt question of whether to overrule *Brulotte* and may instead consider myriad intermediate approaches, as the 1988 legislative record demonstrates. Congress thus has "the greater capacity 'to weigh and accommodate the competing policy concerns and reliance interests' involved in" this area. *Bay Mills*, 134 S. Ct. at 2037-2038.

The long history of congressional attention to the patent term, patent licensing, patent misuse, and specifically *Brulotte* also illustrates that Congress is eminently capable of addressing petitioners' concerns, should it find any merit in them. Petitioners' claim that *Brulotte* "produces a number of serious and harmful consequences" is thus more "appropriately addressed to Congress." *Halliburton*, 134 S. Ct. at 2413.

C. *Brulotte* Has Not In Any Measurable Way Harmed Innovation Or Inventors

It is unsurprising that Congress has opted not to change *Brulotte*. Despite academic criticism, there is no evidence that *Brulotte* has impeded desirable patent licensing or innovation. Petitioners and their amici cannot point to a single actual licensing opportunity that failed because of *Brulotte*. Indeed, the many praiseworthy inventions mentioned by amici (*e.g.*, Memorial Sloan Kettering Br. 10-11) were all invented, disclosed, and commercially produced with *Brulotte* in effect. Despite petitioners' "speculative protestations to the contrary, there is simply no evidence that [*Brulotte*] has caused or will cause" a stifling of research or development. *United States* v. *International Bus. Machs. Corp.*, 517 U.S. 843, 856 (1996) (citation omitted) (adhering to *stare decisis*).[11]

The record that Congress compiled in 1988 before ultimately declining to modify *Brulotte* demonstrated that patent licensing was robust at the time, as was patentable innovation in a wide variety of fields. *See supra* p.24. That is even more true today. *E.g.*, PTO, *U.S. Patent Statistics: Calendar Years 1963-2013* (2014) (number of annual issued U.S. utility patents more than tripled since 1964); Watanabe, *Patent Licensing and the Emergence of a New Patent Market*, 9 Hous. Bus. & Tax L.J. 445, 449 & n.24 (2009) (estimated U.S. annual patent licensing revenues grew several hundred percent in the 1990s and exceeded $150 billion by 2006).

---

[11] *Compare Leegin*, 551 U.S. at 903 (overruling *Dr. Miles Med. Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911), in part because that decision in fact "led[] rational manufacturers to take wasteful measures").

Brulotte also has not disadvantaged inventors. Petitioners claim (at 41-42) that it functions as a "trap for the unwary" and invites sharp practices by sophisticated licensees. However, other contract remedies already exist to address that supposed problem. The court of appeals noted that a *quantum meruit* theory might be available in other circumstances, not present here, if a patent holder could demonstrate that "the amount of royalties paid was lower than the fair market value of the [licensee]'s use of the license." Pet. App. 26 n.8.[12] Similarly, if a licensee requests a royalty extending beyond expiration of the patent, knowing the royalty will be unenforceable when the patent expires, the licensor might have a claim for fraudulent inducement. *See, e.g.*, *Held* v. *Kaufman*, 694 N.E.2d 430, 431-433 (N.Y. 1998). Petitioners did not seek any such relief, nor could they, given that they proposed the structure of the agreement (JA26-27) and there was no evidence of any overreaching by Marvel.

In any event, *Brulotte* is hardly an arcane rule lurking in surprise. Although the parties to this particular settlement apparently did not consider it when entering into their agreement (*supra* n.4), *Brulotte* is discussed in virtually every modern licensing guide. *See, e.g.*, 1 Dratler § 4.04[5] ("axiomatic" rule); 1 Einhorn & Bensen, *Patent Licensing Transactions* § 3.07 (rev. ed. 2014) ("abundantly clear" rule); Jager, *Licensing Law Handbook* § 3:5 (2013) ("readily apparent" consideration for licensors).

---

[12] Petitioners received more than $6 million in royalties (Pet. App. 7)—far in excess of the fair market value of use of the '856 patent. Indeed, there is no evidence that the patent had any commercial value at all unless combined with Marvel's own Spider-Man intellectual property.

D. Overruling *Brulotte* Would Upset The Settled Expectations Of Licensing Parties

The interests of *stare decisis* are "at their acme" here, for *Brulotte* affects "property and contract" rights, and parties who reasonably relied on that decision will have their expectations disturbed if it is overruled. *See Payne*, 501 U.S. at 828; *see also Hilton*, 502 U.S. at 202 ("*Stare decisis* has added force when the legislature, in the public sphere, and citizens, in the private realm, have acted in reliance on a previous decision, for in this instance overruling the decision would dislodge settled rights and expectations or require an extensive legislative response.").

Petitioners contend (at 57-58) that reliance concerns are absent here because overruling *Brulotte* will affect only licenses in which the parties agreed to post-expiration royalties, perhaps unaware of the decision. But petitioners' assumption seriously underestimates the disruption of overruling *Brulotte*. The decision has been a background legal principle for five decades. In light of its clear rule, it has not been strictly necessary to specify an end date for patent royalties, which terminate by law upon expiration of the licensed patent. Although "most licenses specify their duration," some instead rely on "gap-filler rules under contract and intellectual property law," such as *Brulotte*. 1 Nimmer & Dodd, *Modern Licensing Law* § 9:3 & n.1 (2014); *see* 1 Epstein, *Eckstrom's Licensing in Foreign and Domestic Operations* § 3:13 & n.2 (2015) ("not always necessary to specify the term ... of the license," which "may be limited by law" (citing *Brulotte* as an example)); Nordhaus, *Patent License Agreements* 179 (1967) ("In the absence of an expressed term, a license under a patent is implicitly coextensive in time with the unexpired life of the patent.").

The parties to such licenses were entitled to rely on *Brulotte* in drafting the language of their agreements. If *Brulotte* is overruled, any patent license requiring royalties without a stated end date could well be enforceable even after the expiration of the patent. Indeed, decades-old licenses to already expired patents could be revived from the grave if petitioners prevail. Overruling *Brulotte* will invite parties to search through their old licenses and initiate wasteful litigation over royalty agreements that could be read to extend beyond the patent term. That is deeply unfair to the parties who have already arranged their business affairs in reliance on *Brulotte* and its firm, automatic cutoff for the obligation to pay royalties for the use of a patented invention.

The possibility of upsetting such reliance interests is another reason to leave any changes to Congress. If Congress were to modify *Brulotte*, it could act prospectively and ensure that both "patent owners and licensees" maintain their "well settled set of expectations about current law." 134 Cong. Rec. 3262 (statement of Rep. Kastenmeier) (explaining that H.R. 4086 would only act prospectively).

II. Post-Expiration Royalties Violate The Policies Of The Patent Act

If the Court reconsiders the merits of *Brulotte*, then it should reaffirm that decision. *Brulotte*'s rule against royalties for the use of ideas committed to the public domain is well-grounded in patent policy. The same concerns animating *Brulotte* about the limits of the patent grant and the public's entitlement to the free and unrestricted use of ideas after a patent ends are reflected in other settled precedent. Licensing parties may not evade or upset those congressional policy

choices by private agreement. That point remains as vital today as when *Brulotte* was decided.

Petitioners' argument that the "three premises" of *Brulotte* have been eroded by later developments rests on a misconception of *Brulotte*'s foundations. If anything, modern developments underscore the need to protect the public domain from the aggregate toll of patent royalties that would accumulate forever.

A. *Brulotte* Was Correctly Decided As A Matter Of Patent Policy

1. *Brulotte* rightly concluded that royalties for the use of an invention after it enters the public domain are inconsistent with and threaten the "free market visualized for the post-expiration period" by the patent laws. 379 U.S. at 32. The "carefully crafted bargain" at the heart of the patent system is that, in exchange for "the public disclosure of new and useful advances in technology," an inventor receives "an exclusive monopoly for a limited period of time." *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998). Public dedication of the patented idea when the patent ends is an essential part of that bargain. After the limited period of "'exclusive enjoyment'" guaranteed by the statute, "'the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use.'" *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989).

It was protection of that carefully crafted bargain that animated *Brulotte*, not any presumption of market power. The Court began by noting that Congress had, at the time, limited the grant of patent rights to "'the term of seventeen years.'" 379 U.S. at 30 (quoting 35 U.S.C. § 154). During that term, the patentee may li-

cense to others "[t]he right to make, the right to sell, and the right to use" the invention and may do so for "royalties as high as he can negotiate." *Id.* at 31, 33. The Court further explained, however, that "these rights become public property once the [term] expires," and any attempt to continue to require royalties "'runs counter to the policy and purpose of the patent laws.'" *Id.* at 31 (quoting *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)). As Justice Harlan agreed in dissent, royalties "exacted beyond the patent term" restrict the "exploitation of the *idea* after it falls into the public domain," and "no such restriction should be valid." *Id.* at 35.

Petitioners suggest (at 26) that *Brulotte*'s concerns were misplaced because royalties, unlike the right to exclude, do not operate "*against the public at large.*" However, the public is deprived of "the full enjoyment of that which had become theirs by the disappearance of the monopoly," *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U.S. 169, 185 (1896), even if only a single licensee is required to continue to pay royalties for use of the idea after it becomes public property. *See* Feldman Br. 6 ("A contract provision that limits the capacity and incentive for even one potential innovator to make scientific leaps after the expiration of the patent disrupts the balances created by Congress in the Patent Act."). It is often through licensees that the public enjoys the benefits of committing the invention to the public domain. A licensee may be the best party, and perhaps the only party, suited to make use of the invention or to build upon it with additional innovation. Although, as a theoretical matter, any non-licensee might practice the invention without paying royalties after the patent expires, that is of little moment if only the licensee is in a position to do so as a practical matter—as here, for ex-

ample, when the patent claims merely a component of a device also covered by other intellectual property (and indeed was designed to benefit from the licensee's own intellectual property). *See infra* pp.50-51.

2. Although petitioners attempt to paint *Brulotte* as an outlier, the same concern for protecting the patent bargain animates several of this Court's prior and subsequent decisions, which confirm the wisdom of *Brulotte*'s rule and could be unsettled if *Brulotte* were overruled. For example, *Brulotte* relied on *Scott Paper* for its discussion of "'the policy and purpose of the patent laws.'" 379 U.S. at 29. In that case, the inventor assigned his patent, began a company to compete with the assignee, and was then sued for infringement. *Scott Paper*, 326 U.S. at 251. As a defense to infringement, he sought to show that he was using only a device disclosed in an earlier, expired patent. *Id.* But because doing so could call into question the validity of the assigned patent, the defense was arguably barred by the assignment. *Id.* at 251-252.

Scott Paper held that neither an assignor nor anyone else could be precluded "by express contract" or otherwise from "using the invention of an expired patent." 326 U.S. at 255-256. The Court explained that permitting enforcement of such an agreement would deprive "the consuming public of the advantage to be derived from" the *assignor's* "free use of the disclosures." *Id.* at 256. To permit that would violate federal patent policy:

> The aim of the patent laws is not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the

> benefits of the unrestricted exploitation, by others, of its disclosures.

Id. at 255. The Court added that "the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing *any part* of the former patent monopoly." *Id.* at 256 (emphasis added). *Scott Paper* thus confirms that, after a patent expires, all the exclusive rights it conferred are "dedicated to the public," and use of them is "no longer subject to private barter, sale, or waiver." *Id.* at 257.

Brulotte and *Scott Paper* concern expired patents, but the same policy is reflected in this Court's treatment of invalid patents. When a patent is declared invalid in litigation involving a third party, "licensees may avoid further royalty payments, regardless of the provisions of their contract." *Lear*, 395 U.S. at 667. An invalidated patent has ceased to exist, and the ideas claimed in it belong to the public at large, including licensees. Even though the obligation to pay royalties is contractual, federal law bars enforcement of that obligation after the end of the underlying federal property right. *See id.* at 672-673.

Indeed, *Lear* held that the policy of protecting the unrestricted use of ideas committed to the public domain is so important to the purposes of the patent laws that the licensee itself may not be estopped from repudiating its license, challenging the validity of the licensed patent, *and* declining to pay royalties while doing so, despite an express contractual promise to the contrary. 395 U.S. at 670-671, 673-674; *see also Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394, 402 (1947) (a "specific contract not to challenge ...

validity" cannot "override congressional policy").[13] That non-licensees might also challenge the validity of the patent is immaterial, for as *Lear* explained licensees "may often be the only individuals with enough economic incentive" to police the patent bargain and thus protect the public from paying to use that which should be free to all. 395 U.S. at 670.

These decisions make clear that, as a matter of federal patent policy, the putative efficiencies or fairness of private arrangements that would restrict use of an idea after a patent ends or ceases to exist cannot be the sole focus. Federal patent policy also requires taking account of the *public interest* in benefitting from the unrestricted exploitation of the invention *by the licensee*. *See* Altman, *Is There an Afterlife?*, 64 J. Pat. Off. Soc'y 297, 305 (1982) ("[T]he overriding consideration is not the licensee's right to *make* the licensed product, but the general public's right to *buy* it from him."). That is true regardless of any private agreement to the

---

[13] In abolishing licensee estoppel, *Lear* noted that the doctrine had been particularly undermined by *Scott Paper*, which it understood as "finding that the policy of the patent laws would be frustrated if a manufacturer was required to pay for the use of information which, under the patent statutes, was the property of all," 395 U.S. at 665-666—a rationale that supports *Brulotte* equally well. *Lear* also relied on cases preempting state protections for ideas after a patent expires. *Id.* at 656 (citing *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964)). As the United States explained in its cert-stage brief (at 17), those preemption decisions confirm that federal patent policy is "not indifferent to what happens when a patent's prescribed term ends" and may preclude various state-law restrictions on the "use of [a] formerly patented invention." *See also Bonito Boats*, 489 U.S. at 152 ("[A]fter the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law.").

contrary. *E.g.*, *Lear*, 395 U.S. at 673 ("decisive question" is a categorical policy judgment, as to which "[t]he parties' contract" cannot be controlling); *Katzinger*, 329 U.S. at 401 (license is "still illegal, whoever suggested it").

This consistent body of precedent flowing from the policy of the patent laws cannot be dismissed as preventing only attempts to extend the duration of the patent monopoly against the public at large. Pet. Br. 26 & nn.12-13. To the contrary, both *Lear* and *Scott Paper* invalidated restrictions that operated only on licensees, and yet this Court found those obligations incompatible with the federal patent policy of allowing free use of ideas in the public domain. *Lear*, 395 U.S. at 667; *Scott Paper*, 326 U.S. at 255-257.[14] In both cases the overriding public interest embodied in federal patent policy required relief for the individuals affected.

What these cases and others teach is that Congress has made a considered judgment, reflected in many different ways in the Patent Act, that the progress of knowledge and commerce depends on not only rewarding innovation with a period of exclusivity but also carefully limiting that period, so that further innovation is not unduly hampered.

---

[14] Both *Lear* and *Scott Paper* were decided before this Court embraced the doctrine of non-mutual collateral estoppel in *Blonder-Tongue*, and thus neither case resulted in, or depended on, the patent being "extinguished" for "the public at large." Pet. Br. 26 (emphasis omitted). In addition, *Scott Paper* did not invalidate the patent at issue, but rather avoided that outcome by affirming the court of appeals' reliance on the "prior art" in claim construction to "limit[] the claims of the assigned patent, and thus avoid infringement." 326 U.S. at 251.

3. Petitioners contend (at 31) that patent policy favors overruling *Brulotte* so that the parties to a license may "balance and allocate the risks of developing and commercializing new patentable technologies." For example, petitioners hypothesize (at 35) that the licensing parties may jointly prefer royalties to accrue after expiration if they anticipate that successful commercialization will occur only in the distant future and wish to "redistribute the risk of product failure" in the interim. But federal patent law properly forbids private efforts to rebalance the risks and rewards inherent in the patent bargain.

Allowing licensing parties to agree to the accrual of royalties after the patent expires "threatens the overall balances" struck in the patent bargain by "[l]eaving open the time for determining and capturing the value of [the] invention." Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 445 (2003). "The market's inability to recognize or calculate the value of an invention is one of the hazards built into the 20-year patent term," and a patentee may not "secure extra time up front by ... building such time into each license." Feldman Br. 23; *see also* Altman, 64 J. Pat. Off. Soc'y at 312 (agreements for post-expiration royalties are attempts to substitute "success which the licensed product enjoyed after expiration" for success "during the term of the patent"); Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793, 803 (1988) ("Congress has determined that 17 years of exclusivity provides enough incentive to call forth inventive activity in the United States. Parties are simp-

ly not free to circumvent this through licensing agreements.").[15]

Petitioners dismiss these concerns (at 27-28) as formalistic. To the contrary, they reflect the substantive congressional policy of ensuring that the public ultimately receives its end of the patent bargain—the full and unfettered use of an invention once it enters the public domain. Adhering to that policy, the Court in *Brulotte* properly determined that the statutory patent term limits not only the length of the patentee's monopoly but also the window of time within which the patentee may charge royalties for new uses of an idea. Petitioners' lament that collecting royalties on up to 20 years of use is not enough in some instances should be directed not to this Court but to Congress, which can and has modified the patent term to respond to similar complaints. *Supra* pp.27-28.

B. Petitioners Misunderstand And Misconstrue The Premises Of *Brulotte*

Petitioners devote much of their brief (at 18-45) to attacking what they describe as the "three premises underlying" *Brulotte*. None of the "three premises" is actually the basis of *Brulotte*, and none of petitioners' criticisms provides a compelling justification to overrule it.

---

[15] Contrary to petitioners' suggestion (at 27 & n.14), these commentators do not favor judicially overruling *Brulotte*. *See, e.g.*, Feldman Br. 24-26; *supra* p.24 (Merges's 1988 testimony).

1. *Brulotte* does not rest on the fallacy that post-expiration royalties extend the right to exclude

Petitioners characterize *Brulotte* (at 20) as mistakenly reasoning that "patent *royalties* on post-expiration use" somehow extend the patent monopoly so as to "prevent anyone from practicing the invention" in the post-expiration period. The Court made no such mistake; it obviously recognized that, after the expiration of the patent term, all persons other than the licensee are free to use the invention without paying for it. As explained, however, a licensee is often in the best position, perhaps the only position, to police the limits of a patent grant and prevent misuse by the patentee. A patentee may have misused its patent even if it has not successfully extended its monopoly against the public at large.

Moreover, a core feature and attraction of patent rights is the ability to license those rights in exchange for royalties. *See Brulotte*, 379 U.S. at 33 (a "patent empowers the owner to exact royalties"). The Patent Act guarantees at least "a reasonable royalty" to compensate for the harm of infringement. 35 U.S.C. § 284. In fact, because a court will enjoin others from using the invention without a license only where the patentee can satisfy the traditional four-factor test for injunctive relief, *eBay Inc.* v. *MercExchange, LLC*, 547 U.S. 388, 391 (2006), the right to collect royalties is often the only right that a patent confers in practice. It is thus sensible to conclude, as *Brulotte* did, that continuing to collect a royalty for use of the patent after the patent no longer exists *is* an extension of patent rights into the post-expiration period.

2. *Brulotte*'s prohibition on post-expiration royalties is economically sound

Petitioners also challenge (at 36-37) what they describe as "the second, implicit premise" of *Brulotte*, that post-expiration royalties are "invariably anticompetitive." But that is merely a restatement of petitioners' own mistaken premise that *Brulotte* arises from antitrust law. *Brulotte* nowhere considered whether post-expiration royalties were "invariably" anticompetitive or procompetitive; those are antitrust concepts, which implement different congressional objectives. Fundamentally, it is *patent* policy, not antitrust law, that animated *Brulotte*.

To say that post-expiration royalties should be permitted if they are sometimes procompetitive misses that important distinction and would give no effect to the patent law principles effectuated by *Brulotte*. "Antitrust law is designed to address only particular types of harm, and it cannot reach everything that patent policy addresses." Feldman, 55 Hastings L.J. at 400; *see* Lim, *Patent Misuse and Antitrust Law* 27 (2013) (patent policy is designed to foster unexpected innovations, while antitrust policy addresses only "static competition" and "foreseeable consequences"). Unlike antitrust law, "'patent policy encompasses a set of judgments about the proper tradeoff between competition and the incentive to innovate over the *long* run.'" *FTC* v. *Actavis, Inc.*, 133 S. Ct. 2223, 2246 (2013) (Roberts, C.J., dissenting). Invoking the balance of pro- or anticompetitive effects on the immediate market, as petitioners do, "misses the basic point" of the patent laws. *Id.* at 2245-2246.

Even setting aside petitioners' categorical error, the economic efficiency rationales that petitioners offer for overruling *Brulotte* fail on their own terms.

First, petitioners' discussion of the perceived benefits of overruling *Brulotte* ignores the costs and inefficiencies of abandoning *Brulotte*'s clear rule. Under *Brulotte*, the limits imposed on parties negotiating patent licenses are straightforward and easy to follow. *Brulotte* and *Aronson* helpfully clarify the rights and obligations of patent holders and licensees when negotiating over both patent and non-patent rights by requiring that parties wishing to extend non-patent royalties beyond the patent term clearly indicate their intent and distinguish those royalties from charges for using the patent during its term. Lim, *Patent Misuse and Antitrust*, 20 Mich. Telecomm. & Tech. L. Rev. 299, 357 (2014). *Brulotte* thus promotes clarity and certainty in licensing negotiations and provides a readily administrable rule that allows for efficient adjudication when disputes arise.

By contrast, the alternative that petitioners offer would increase uncertainty. Parties negotiating a license that includes post-expiration royalties could never know whether their agreement will withstand scrutiny until the issue is actually litigated. The resulting uncertainty would encourage litigation, whether opportunistic or defensive, either to exploit that uncertainty or to eliminate it. *See Texas* v. *New Jersey*, 379 U.S. 674, 678-679 (1965) (refusing to apply a nebulous rule for this reason); Miceli, *The Economic Approach to Law* 246-248 (2004).

The increased complexity of litigation without the bright-line rule of *Brulotte* would also increase litigation costs. The burden of that litigation would be par-

ticularly acute under the rule of reason standard that petitioners propose. *See infra* pp.52-54 (discussing the problems with applying the rule of reason). This complexity and cost would deter licensees from challenging coercive post-expiration royalty terms in all but the most extreme and high-value cases. As a result, more extended or indefinite royalties will be demanded and more will be paid, to the ultimate detriment of the public.

Second, petitioners suggest (at 20-21) that post-expiration royalties are economically an "'*illusion*'" and only "reflect the anticipated value of the authorization to use the patented invention before the patent expires." There is no reason to think that is always or even generally true. The fact that a licensee is presumably aware that it will be able to use the invention for free *after* expiration does not prevent the patentee from exercising leverage *before* expiration. *See, e.g.*, Comment, *Validity of Patent License Provisions Requiring Payment of Post-Expiration Royalties*, 65 Colum. L. Rev. 1256, 1269 (1965) (licensee may be "influenced by the immediate economic circumstances of a competitive market" into accepting onerous post-expiration royalties). As *Brulotte* illustrates, such agreements are often the product of coercion. *See* 379 U.S. at 32 (patentee made "a bald attempt to exact the same terms and conditions for the periods after the patents have expired as ... for the monopoly period"). Indeed, patent-license negotiations may often fail to approximate the conditions presumed by the classical economic model of efficient bargaining. *See, e.g.*, Sag & Rohde, *Patent Reform and Differential Impact*, 8 Minn. J.L. Sci. & Tech. 1, 36-37 (2007) (patent holder may have asymmetrically better information about the scope and validity of the patent); Beggs, *The Licensing*

of Patents under Asymmetric Information, 10 Int'l J. Indus. Org. 171, 171-172 (1992) (patent licensee may have asymmetrically better information about the patent's commercial viability); Kahneman, *Maps of Bounded Rationality, in Les Prix Nobel* 449, 456-465 (2003) (describing limits of rational-choice models).

Third, petitioners contend (at 22-23 & n.11, 29 & n.15) that permitting post-expiration royalties will result in lower royalty rates, and that having a lower rate over a longer time period may be desirable for various reasons. However, *Brulotte* already permits deferred payments for pre-expiration use. *Zenith Radio*, 395 U.S. at 136; *supra* p.15. By spreading the cost of the license over time, the parties may already reduce any "deadweight loss." *2007 DOJ/FTC Report* 12.

Brulotte's decision to hold the line against royalties accruing on post-expiration use, however, is well grounded. "Royalties affect [the licensee's] marginal cost, and hence output and prices" only during the period in which they accrue, after which "any remaining obligation is a fixed cost" with no marginal effect on the licensee's decisionmaking. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly*, 76 Yale L.J. 267, 328 (1966). Thus, allowing a patentee to demand royalties on a licensee's post-expiration use would affect the licensee's prices or outputs in the post-expiration period in a way that amortized pre-expiration royalties do not.[16]

---

[16] Petitioners claim (at 28) that the marginal effects of continuing to accrue royalties after the patent term would be offset in part by the lower royalty rates that petitioners hypothesize would occur if *Brulotte* is overruled. Even if that were true, the net effect on output and prices would be at best unclear. That is not a

Fourth, petitioners argue (at 31-33, 35-36) that agreements to accrue post-expiration royalties provide a desirable risk-shifting mechanism to capture the future commercial value of an invention, which mere amortization of pre-expiration royalties allegedly cannot achieve. But that argument is inconsistent with petitioners' prior argument that post-expiration royalties are an "illusion" and necessarily represent only the value of the license during the patent term. Moreover, the limited patent term—followed by public ownership of the disclosed invention—already represents a careful congressional balancing of risk and reward. Private parties may not reallocate those risks for their own purposes by license agreements. *See supra* pp.40-41.

Congress's careful balancing is forcefully demonstrated by the single real-world example petitioners offer of an industry that would supposedly benefit from post-expiration royalties: pharmaceuticals and other "life-saving medical treatments." Pet. Br. 31-32; *see id.* 10, 35-36; Memorial Sloan Kettering Br. 4, 11-12, 18; MassBiologics Br. 23-24; BioTime Br. 5. The commercial risks of developing such technologies—long and uncertain development cycles, regulatory delays, the prospect of generic competition—are surely real. But Congress *already* addressed them in the Hatch-Waxman Act two decades after *Brulotte* was decided.

As described above (at 27), the Hatch-Waxman Act authorizes an extension of the patent term for pharmaceuticals and medical devices to compensate for regulatory delays. 35 U.S.C. § 156. The Act also creates periods of non-patent exclusivity of up to seven-and-a-half years regardless of the existence or expiration of any

---

compelling reason to overrule settled precedent. *See Halliburton*, 134 S. Ct. at 2410.

underlying patents. 21 U.S.C. § 355(c)(3)(E)(ii). The pharmaceutical example thus illustrates the wisdom of leaving any modification of *Brulotte* to Congress, which is far better suited to make policy judgments about the relative balance of risk and reward necessary for optimal innovation, and in fact has acted to strike the balance that it considers appropriate.

Petitioners also cannot point to any evidence that innovation in the life sciences or any other industry has been measurably harmed by *Brulotte*. *Supra* p.30. That is not surprising. To the extent there is a genuine need and joint willingness to share the risks and rewards of commercializing basic research over a long time horizon—one exceeding the 20-year patent term, plus extensions—there are many other ways to do so. The parties may, for example, form joint ventures, exchange equity, or agree to grant back rights to future inventions. Parties are certainly flexible and creative enough to adopt many other ways as well.

3. Developments in antitrust law have not eroded *Brulotte*'s foundations

The last supposed premise of *Brulotte* that petitioners attack is the presumption that a patent confers market power—a presumption that they say (at 41) has been "undercut" by subsequent developments. The developments to which petitioners point actually confirm the vitality of *Brulotte*.

Petitioners point first to the Patent Misuse Reform Act of 1988, which established a market-power requirement in order to demonstrate that a tying arrangement involving patents constitutes misuse. 35 U.S.C. § 271(d)(5). They then invoke this Court's decision in *Illinois Tool Works Inc.* v. *Independent Ink*,

Inc., which held that, in view of those congressional changes, market power must also be shown in order to prove an antitrust violation based on patent tying. 547 U.S. 28, 41-43 (2006).

As explained above (at 21-25), the 1988 amendments are notable principally because Congress modified other aspects of patent misuse but did *not* alter *Brulotte*, despite hearing from its detractors and despite considering specific proposals to do so. Petitioners offer no reason why this Court should view the 1988 changes to patent misuse law as a mandate to overrule a decision that Congress itself declined to alter.

Nor is there an anomaly in retaining *Brulotte* even though the antitrust enforcement agencies do not always regard demands for post-expiration royalties as *per se* violations of the Sherman Act. Pet. Br. 16-17, 25, 44-45. *Brulotte* is an equitable defense to enforcement of a patent license, insofar as the license requires post-expiration royalties; it is not a ground for antitrust liability. *Supra* p.17. As the United States pointed out in its cert-stage brief (at 15), petitioners have failed to identify a single case in which a party was held liable for violating the antitrust laws as a result of forming the sort of license *Brulotte* forbids. It is not unusual that a private agreement violating public policy would be unenforceable as between the parties even though it does not give rise to "criminal antitrust enforcement" (Pet. Br. 45 n.20) or other punitive sanctions. *See, e.g.*, *Restatement (Second) of Contracts* § 178 (1981). So too this Court's reconsideration of whether other practices should be *per se* illegal under the Sherman Act has little bearing on the merits of overruling *Brulotte*, which is not an antitrust decision, but rather an application of federal patent policy. Pet. Br. 40.

C. Overruling *Brulotte* Would Exacerbate The Problem Of Royalty Stacking And Would Invite Nuisance Litigation

Petitioners accuse *Brulotte* of being out of step with the times. Pet. Br. 1. In fact, the decision is even more relevant and necessary today. The hop-picking machine at issue in *Brulotte* involved seven licensed patents. 379 U.S. at 30. It is rare for modern products of any technological significance to be covered by a comparably small number of patents, such that the expiration of one of them will permit market entry by competitors to a licensee. A smartphone, for example, was estimated in 2011 to use "technologies claimed by 250,000 different patents," and "the number today is probably larger." Lemley & Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117, 2148 (2013); *see also 2007 DOJ/FTC Report* 60 n.9 (a semiconductor may be covered by "'thousands of patents,'" and industry participants "'are tripping over each other's patents right and left'"). Dense thickets of patents cover many innovations in biotechnology, software, and other cutting edge fields.

The cumulative drag of the many patent royalties required to manufacture or sell a product in these fields is so well known that it has acquired its own name: "royalty stacking." The term "reflects the fact that, from the perspective of the firm making the product in question, all of the different claims for royalties must be added or 'stacked' together to determine the total royalty burden borne by the product if the firm is to sell that product free of patent litigation." Lemley & Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 1993 (2007). It is widely recognized that royalty stacking can pose a threat to innovation. *E.g.*, *2007 DOJ/FTC Report* 61; Shapiro, *Navigating the Pa-*

tent Thicket, in 1 Jaffe et al., *Innovation Policy and the Economy* 119, 121 (2001). That threat will only grow if *Brulotte* is overruled and royalties are permitted to stack up forever. One salutary consequence of *Brulotte* is that a manufacturer facing a patent thicket knows that the royalties accruing to various patent holders will come to an end at some time, as layers of patent protection expire. That will not be true if petitioners prevail.

The patent-thicket obstacle to commercialization is worsened by the "seemingly endless stream of license demands and suits" from non-practicing entities (NPEs) that acquire patents merely to assert them in nuisance litigation. Lemley & Melamed, 113 Colum. L. Rev. at 2147; *see eBay*, 547 U.S. at 396 (Kennedy, J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."). The patents asserted in such litigation are far more likely to be near the end of their terms than patents asserted by bona fide inventors. *See* Love, *An Empirical Study of Patent Litigation Timing*, 161 U. Pa. L. Rev. 1309, 1312 (2013) ("Though asserting just over 20% of all studied patents, NPEs account for ... over 80% of infringement claims litigated in the final three years of the patent term.").[17] Overruling *Brulotte* will exacerbate the problems posed by non-practicing entities by removing a desirable check on the

[17] NPEs often wait until a commercial market has already developed before launching nuisance litigation and tend to acquire patents in a secondary market that takes time to develop—for example, after a competitor fails and its patents are auctioned off. Love, 161 U. Penn. L. Rev. at 1317.

leverage they can exercise when asserting near-expiration patents.

III. The Court Should Not Adopt A Rule Of Reason Standard

A. The Court Should Reject Petitioners' Invitation To Import The Antitrust Rule Of Reason Into This Context

If *Brulotte* is overruled or modified, the Court should reject petitioners' invitation to apply burdensome and unpredictable rule-of-reason analysis. The rule of reason is an "elaborate inquiry into the reasonableness of a challenged business practice," *Arizona* v. *Maricopa County Med. Soc'y*, 457 U.S. 332, 343 (1982), that burdens litigants with a "litany of costs" over and above the normal expenses of litigation, ABA Section of Antitrust Law, *The Rule of Reason* 6 (1999). Once the rule of reason applies, the parties and the courts are thrust into "cumbersome and very expensive proceedings." *Health Care Reform Issues: Hearings Before the H. Comm. on the Judiciary*, 104th Cong. 56 (1996) (statement of Robert Pitofsky, FTC Chairman). Application of the rule of reason requires extensive discovery into current and past market conditions and complex quantitative economic analyses. *See Bell Atl. Corp.* v. *Twombly*, 550 U.S. 544, 558-559 (2007); Easterbrook, *The Limits of Antitrust*, 63 Tex. L. Rev. 1, 12-13 (1984) ("Litigation costs are the product of vague rules combined with high stakes, and nowhere is that combination more deadly than in antitrust litigation under the Rule of Reason.").

Even in antitrust law, this Court has stepped away from the rule of reason and turned increasingly to the use of less expensive and uncertain inquiries. Thus, for some challenged business practices, the courts employ

a "quick-look" method, which is appropriate when even a rudimentary analysis can determine that the practice is invalid. *California Dental Ass'n* v. *FTC*, 526 U.S. 756, 769-771 (1999) (describing "quick-look" antitrust analysis). This truncated approach permits a court to employ structured presumptions where appropriate, such as a "presumption of adverse competitive impact" when an antitrust defendant cannot establish legitimate justifications for its actions. *United States* v. *Brown Univ.*, 5 F.3d 658, 669 (3d Cir. 1993).

More broadly, the balancing of pro- and anticompetitive effects in a rule-of-reason inquiry would not effectively safeguard the patent system from misuse. The two bodies of law address distinct interests that sometimes point in different directions. The antitrust laws principally serve to protect consumer interests by fostering the kind of competition that promotes increased access to quality goods and services at low prices. Those goals are not identical to those of the patent laws, which "promote consumer interests in a different way, by providing protection against competition." *Actavis*, 133 S. Ct. at 2246 (Roberts, C.J., dissenting). The patent system represents a holistic set of values and compromises designed to advance innovation by rewarding inventors while also ensuring the progress of public knowledge. *See Mayo Collaborative Servs.* v. *Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1301-1302 (2012). The rule of reason "'was not designed for such judgments and is not adept at making them.'" 1 Hovenkamp et al., *IP and Antitrust* § 7.3a (2d ed. 2015); *see* Feldman Br. 19-24.

It is unclear from petitioners' proposal whether patent misuse would survive in any independent form at all. Pet. Br. 45-49, 58. The Sherman Act is already available to a licensee if the licensee can demonstrate

that the licensor has market power and has imposed restraints of trade that violate the rule of reason. Petitioners' proposal thus threatens to abolish any independent patent-based restrictions on the exaction of post-expiration royalties and would leave the critical regulation of licensing entirely to antitrust doctrine.

B. If *Brulotte* Is Modified, The Patentee Should Be Required To Rebut The Presumption That It Has Improperly Extended Its Patent Rights

1. If the Court modifies *Brulotte*, it should at most be relaxed rather than overruled. Its underlying principles are sound and need not be jettisoned entirely to achieve the procompetitive effects petitioners claim for post-expiration royalties. *See* AIPLA Br. 24-26; Feldman Br. 26-27. In particular, any modification of *Brulotte* should require the patentee—the party who seeks to collect royalties for use of an idea after the patent expires—to demonstrate why doing so is not unreasonable or harmful to innovation.

It is reasonable at least to presume, as *Brulotte* did, that a licensee would agree to pay for post-expiration royalties only as a result of improper patent leverage. Even *Brulotte*'s harshest critics concede that licenses for post-expiration royalties may not reflect a freely negotiated bargain but rather an improper assertion of market power—hence the continuing need, even in petitioners' view, for rule-of-reason scrutiny. Pet. Br. 45-46; *see also, e.g.*, 1 Hovenkamp § 23.2a.

Aronson held that the presumption of improper patent leveraging may be rebutted when the royalties are shown to be for the use of unpatented ideas, such as know-how or trade secrets. 440 U.S. at 265. Any modification of *Brulotte* should take the same tack. Royalties for post-expiration use of an invention are contrary

to the public policies of the Patent Act and should be presumptively unlawful. The patentee should bear the burden of demonstrating that it did not leverage its patent and that collecting royalties in the post-expiration period does not threaten innovation. The patentee might show, for example, that the arrangement was sought by the licensee for bona fide commercial reasons, or that it is non-exclusive and other licensees will not face the same post-expiration royalty toll, or that the patent is drawn to technology for which market entry is likely upon patent expiration.

In any event, it is the party seeking to extend its rights past expiration that should bear the burden of making that showing. *Cf. Medtronic, Inc.* v. *Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 851-852 (2014) (patentee bears burden of proving infringement in declaratory judgment suit by its licensee in part because a "patentee 'should not be ... allowed to exact royalties for the use of an idea ... that is beyond the scope of the patent monopoly granted'"). Petitioners could not satisfy that standard here. Petitioners themselves proposed the structure of the settlement agreement, and petitioners have never suggested any procompetitive rationale or particular commercial need for post-expiration royalties. *See supra* p.6.

2. The *Brulotte* issue in this case arises in an exceptionally unusual posture. The parties' settlement agreement can easily be read to require no further royalties for petitioners, regardless of *Brulotte*. By its terms, the agreement obligates Marvel to pay royalties only for the specific Web Blaster that was at issue in the 1997 litigation—which is no longer sold—and for products that would infringe the '856 patent—of which there are none, since the patent expired. JA18-19. Indeed, in the ongoing litigation over the alleged 1990

oral agreement, petitioners themselves have shifted to arguing that post-expiration, non-patent royalties are due only because of the alleged oral agreement, not the settlement agreement. *Supra* p.10.

Marvel understood the settlement as requiring royalties for web-shooting role-play toys during the life of the patent. When petitioners contended, to the contrary, that the settlement contemplated distinct non-patent royalties that would continue indefinitely after the patent term, Marvel relied on the settled law of the circuit concerning *Brulotte* and "hybrid" licenses to defeat that argument. *Supra* p.7. If *Brulotte* is overruled or modified and the effect is to make a "hybrid" royalty agreement enforceable even though it does not distinguish between patent and non-patent royalties, then simple fairness demands that Marvel have an opportunity to present a complete array of defenses, including the opportunity to show that the parties' settlement does not by its terms require any post-expiration payments.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

SETH P. WAXMAN
Counsel of Record
PAUL R.Q. WOLFSON
THOMAS G. SAUNDERS
MATTHEW GUARNIERI
DANIEL AGUILAR
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com

FEBRUARY 2015

APPENDIX

35 U.S.C. § 154 (1964). Contents and term of patent.

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

35 U.S.C. § 154 (1988). Contents and term of patent.

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States and, if the invention is a process, of the right to exclude others from using or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

35 U.S.C. § 154 (2015). Contents and term of patent; provisional rights.

(a) IN GENERAL.—

(1) CONTENTS.—Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a

process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

(2) TERM.—Subject to the payment of fees under this title, such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States or, if the application contains a specific reference to an earlier filed application or applications under section 120, 121, or 365(c), from the date on which the earliest such application was filed.

(3) PRIORITY.—Priority under section 119, 365(a), or 365(b) shall not be taken into account in determining the term of a patent.

(4) SPECIFICATION AND DRAWING.—A copy of the specification and drawing shall be annexed to the patent and be a part of such patent.

(b) ADJUSTMENT OF PATENT TERM.—

(1) PATENT TERM GUARANTEES.—

(A) GUARANTEE OF PROMPT PATENT AND TRADEMARK OFFICE RESPONSES.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the Patent and Trademark Office to—

(i) provide at least one of the notifications under section 132 or a notice of allowance under section 151 not later than 14 months after—

(I) the date on which an application was filed under section 111(a); or

(II) the date of commencement of the national stage under section 371 in an international application;

(ii) respond to a reply under section 132, or to an appeal taken under section 134, within 4 months after the date on which the reply was filed or the appeal was taken;

(iii) act on an application within 4 months after the date of a decision by the Patent Trial and Appeal Board under section 134 or 135 or a decision by a Federal court under section 141, 145, or 146 in a case in which allowable claims remain in the application; or

(iv) issue a patent within 4 months after the date on which the issue fee was paid under section 151 and all outstanding requirements were satisfied,

the term of the patent shall be extended 1 day for each day after the end of the period specified in clause (i), (ii), (iii), or (iv), as the case may be, until the action described in such clause is taken.

(B) GUARANTEE OF NO MORE THAN 3-YEAR APPLICATION PENDENCY.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the United States Patent and Trademark Office to issue a patent within 3 years after the actual filing date of the application under section 111(a) in the United States or, in the case of an international application, the date of commencement of the national stage under section 371 in the international application, not including—

(i) any time consumed by continued examination of the application requested by the applicant under section 132(b);

(ii) any time consumed by a proceeding under section 135(a), any time consumed by the imposition of an order under section 181, or any time consumed by appellate review by the Patent Trial and Appeal Board or by a Federal court; or

(iii) any delay in the processing of the application by the United States Patent and Trademark Office requested by the applicant except as permitted by paragraph (3)(C),

the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued.

(C) GUARANTEE OF ADJUSTMENTS FOR DELAYS DUE TO DERIVATION PROCEEDINGS, SECRECY ORDERS, AND APPEALS.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to—

(i) a proceeding under section 135(a);

(ii) the imposition of an order under section 181; or

(iii) appellate review by the Patent Trial and Appeal Board or by a Federal court in a case in which the patent was issued under a decision in the review reversing an adverse determination of patentability,

the term of the patent shall be extended 1 day for each day of the pendency of the proceeding, order, or review, as the case may be.

(2) LIMITATIONS.—

(A) IN GENERAL.—To the extent that periods of delay attributable to grounds specified in paragraph (1) overlap, the period of any adjustment granted under this subsection shall not exceed the actual number of days the issuance of the patent was delayed.

(B) DISCLAIMED TERM.—No patent the term of which has been disclaimed beyond a specified date may be adjusted under this section beyond the expiration date specified in the disclaimer.

(C) REDUCTION OF PERIOD OF ADJUSTMENT.—

(i) The period of adjustment of the term of a patent under paragraph (1) shall be reduced by a period equal to the period of time during which the applicant failed to engage in reasonable efforts to conclude prosecution of the application.

(ii) With respect to adjustments to patent term made under the authority of paragraph (1)(B), an applicant shall be deemed to have failed to engage in reasonable efforts to conclude processing or examination of an application for the cumulative total of any periods of time in excess of 3 months that are taken to respond to a notice from the Office making any rejection, objection, argument, or other request, measuring such 3-month period from the date the notice was given or mailed to the applicant.

(iii) The Director shall prescribe regulations establishing the circumstances that constitute a failure of an applicant to engage in

reasonable efforts to conclude processing or examination of an application.

(3) PROCEDURES FOR PATENT TERM ADJUSTMENT DETERMINATION.—

(A) The Director shall prescribe regulations establishing procedures for the application for and determination of patent term adjustments under this subsection.

(B) Under the procedures established under subparagraph (A), the Director shall—

(i) make a determination of the period of any patent term adjustment under this subsection, and shall transmit a notice of that determination no later than the date of issuance of the patent; and

(ii) provide the applicant one opportunity to request reconsideration of any patent term adjustment determination made by the Director.

(C) The Director shall reinstate all or part of the cumulative period of time of an adjustment under paragraph (2)(C) if the applicant, prior to the issuance of the patent, makes a showing that, in spite of all due care, the applicant was unable to respond within the 3-month period, but in no case shall more than three additional months for each such response beyond the original 3-month period be reinstated.

(D) The Director shall proceed to grant the patent after completion of the Director's determination of a patent term adjustment under the procedures established under this subsection, notwithstanding any appeal taken by the applicant of such determination.

(4) APPEAL OF PATENT TERM ADJUSTMENT DETERMINATION.—

(A) An applicant dissatisfied with the Director's decision on the applicant's request for reconsideration under paragraph (3)(B)(ii) shall have exclusive remedy by a civil action against the Director filed in the United States District Court for the Eastern District of Virginia within 180 days after the date of the Director's decision on the applicant's request for reconsideration. Chapter 7 of title 5 shall apply to such action. Any final judgment resulting in a change to the period of adjustment of the patent term shall be served on the Director, and the Director shall thereafter alter the term of the patent to reflect such change.

(B) The determination of a patent term adjustment under this subsection shall not be subject to appeal or challenge by a third party prior to the grant of the patent.

(c) CONTINUATION.—

(1) DETERMINATION.—The term of a patent that is in force on or that results from an application filed before the date that is 6 months after the date of the enactment of the Uruguay Round Agreements Act shall be the greater of the 20-year term as provided in subsection (a), or 17 years from grant, subject to any terminal disclaimers.

(2) REMEDIES.—The remedies of sections 283, 284, and 285 shall not apply to acts which—

(A) were commenced or for which substantial investment was made before the date that is 6 months after the date of the enactment of the Uruguay Round Agreements Act; and

(B) became infringing by reason of paragraph (1).

(3) REMUNERATION.—The acts referred to in paragraph (2) may be continued only upon the payment of an equitable remuneration to the patentee that is determined in an action brought under chapter 28 and chapter 29 (other than those provisions excluded by paragraph (2)).

(d) PROVISIONAL RIGHTS.—

(1) IN GENERAL.—In addition to other rights provided by this section, a patent shall include the right to obtain a reasonable royalty from any person who, during the period beginning on the date of publication of the application for such patent under section 122(b), or in the case of an international application filed under the treaty defined in section 351(a) designating the United States under Article 21(2)(a) of such treaty, the date of publication of the application, and ending on the date the patent is issued—

(A)(i) makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application or imports such an invention into the United States; or

(ii) if the invention as claimed in the published patent application is a process, uses, offers for sale, or sells in the United States or imports into the United States products made by that process as claimed in the published patent application; and

(B) had actual notice of the published patent application and, in a case in which the right arising under this paragraph is based upon an international application designating the United States that is published in a language other than English, had a

translation of the international application into the English language.

(2) RIGHT BASED ON SUBSTANTIALLY IDENTICAL INVENTIONS.—The right under paragraph (1) to obtain a reasonable royalty shall not be available under this subsection unless the invention as claimed in the patent is substantially identical to the invention as claimed in the published patent application.

(3) TIME LIMITATION ON OBTAINING A REASONABLE ROYALTY.—The right under paragraph (1) to obtain a reasonable royalty shall be available only in an action brought not later than 6 years after the patent is issued. The right under paragraph (1) to obtain a reasonable royalty shall not be affected by the duration of the period described in paragraph (1).

(4) REQUIREMENTS FOR INTERNATIONAL APPLICATIONS.—

(A) EFFECTIVE DATE.—The right under paragraph (1) to obtain a reasonable royalty based upon the publication under the treaty defined in section 351(a) of an international application designating the United States shall commence on the date of publication under the treaty of the international application, or, if the publication under the treaty of the international application is in a language other than English, on the date on which the Patent and Trademark Office receives a translation of the publication in the English language.

(B) COPIES.—The Director may require the applicant to provide a copy of the international application and a translation thereof.

REPLY BRIEF

FILED
MAR 24 2015
OFFICE OF THE CLERK

No. 13-720

In The
Supreme Court of the United States

STEPHEN KIMBLE AND
ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

REPLY BRIEF FOR PETITIONERS

ANTONIO R. DURANDO
6902 N. Table Mountain Road
Tucson, AZ 85718
(520) 243-3383

ROMAN MELNIK
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN & WEATHERWAX LLP
11400 W. Olympic Blvd., Suite 400
Los Angeles, CA 90064
(310) 307-4500
melnik@glwllp.com

Counsel for Petitioners

March 24, 2015

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

TABLE OF CONTENTS

Page

INTRODUCTION 1

I. *Brulotte*'s *Per Se* Ban Remains A Rule Without A Reason 3

A. Patent Policy Does Not Support *Brulotte* 3

B. The Unnecessary Complexity and Transaction Costs *Brulotte* Imposes On Hybrid Licensing Further Suppress Innovation 8

C. The Parade Of Horribles Marvel Conjures Up Is Illusory 10

D. The Rule Of Reason Provides An Appropriate Test For Scrutinizing Licensing Arrangements Involving Patent Royalties On Post-Expiration Use..... 13

II. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte* 16

A. Overruling *Brulotte* Would Raise No Reliance Concerns 16

B. If *Brulotte* Is Statutory For *Stare Decisis* Purposes, It Is Also Constitutional For *Stare Decisis* Purposes..... 18

C. Congress' Past Legislative Activity Presents No Bar To Overruling *Brulotte* 21

CONCLUSION..... 24

TABLE OF AUTHORITIES

Page

CASES

American Securit Co. v. Shatterproof Glass Co., 268 F.2d 769 (3d Cir. 1959) 18

Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found., 402 U.S. 313 (1971) 23, 24

Brulotte v. Thys Co., 379 U.S. 29 (1964) ..... *passim*

eBay, Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006) 15

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd., 535 U.S. 722 (2002) 15

Illinois Tool Works, Inc. v. Independent Ink, Inc., 547 U.S. 28 (2006) 21, 22, 23

KSR Int'l Co. v. Teleflex, Inc., 550 U.S. 398 (2006) 15

Monell v. Dep't of Soc. Servs., 436 U.S. 658 (1978) 20

Patterson v. McLean Credit Union, 491 U.S. 164 (1989) 21

Payne v. Tennessee, 501 U.S. 808 (1991) 20

Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir. 1966) 18

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014 (7th Cir. 2002) 11

Virginia Panel Corp. v. MAC Panel Co., 133 F.3d 860 (Fed. Cir. 1997) 17

TABLE OF AUTHORITIES – Continued

Page

CONSTITUTION, STATUTES, AND LEGISLATIVE MATERIALS

U.S. Const. Art. I, §8, cl. 8 19

35 U.S.C. §154 19

Patent Misuse Reform Act, Pub. L. No. 100-703 (1988) 21, 22

S. 438, 100th Cong. (1987) 21

BRIEFS

Brief for the United States As *Amicus Curiae*, *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313 (1971), No. 70-338 (Jan. 8, 1971) 1971 WL 133763 23

Brief for Respondent, *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), No. 04-1329 (Sept. 28, 2005) (*available at* http://www.americanbar.org/content/dam/aba/publishing/preview/publiced_preview_briefs_pdfs_05_06_04_1329_Respondent.authcheckdam.pdf) 21, 22

Brief for the United States As *Amicus Curiae*, *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), No. 04-1329 (Aug. 4, 2005) 2005 WL 1864093 23

Reply Brief for Petitioner, *Scheiber v. Dolby Labs., Inc.*, 537 U.S. 1109 (2003), No. 02-689 (Dec. 16, 2002) 2002 WL 32133591 (*available at* https://drive.google.com/file/d/0B94nb-XSCpNUYXRDS1A2MGtVM04yMzhmcXllcVNfS3h5RTMw/view?usp=sharing) 3, 11

TABLE OF AUTHORITIES – Continued

Page

OTHER AUTHORITIES

1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* (2d ed. 2015) 13, 17, 18

Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117 (2013) 13

Letter from Seth P. Waxman and Thomas G. Saunders to Guy Donatiello, Amicus Committee, American Intellectual Property Law Ass'n at 1 (December 18, 2014) (proposal to lodge pursuant to Rule 32.3 pending) 20

3 Roger M. Milgrim & Eric E. Bensen, *Milgrim on Licensing* (2014) 7

Tim Reckart, *Are Royalty Structures in Hybrid Licenses About To Get Simpler?*, Feb. 4, 2015, http://rllaz.com/intellectual-property/are-royalty-structures-in-hybrid-licenses-about-to-get-simpler 10

U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007) 5

INTRODUCTION

Respondent makes no effort to defend the holding of *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), on the basis of any of the three premises underlying that decision. *See* Pet. Br. 9-11 & 18-19 (describing three premises). On the contrary, Marvel concedes that patent royalties on post-expiration use do not extend the patent right to exclude into the post-expiration period, Resp. Br. 42, does not dispute that such royalties can be procompetitive, Resp. Br. 43, and agrees that merely having a patent does not always confer market power and thus does not inherently allow the licensor to exercise improper negotiating leverage over the licensee. Resp. Br. 45.

Why, then, should such royalties be prohibited *per se*? Marvel and its *amici* say that the categorical ban is justified by patent policy – but *what* patent policy, exactly, if it is conceded that the right to exclude is not extended? *Brulotte*'s defenders cannot agree on the answer. The government posits one patent policy, Marvel another, the other *amici* supporting Marvel still another. *See* Part I.A., *infra*. Yet the principal patent policy arguments suffer from the same underlying defect – they take a blinkered view of the consequences of such royalty arrangements, ignoring their overall effect over the pre- and post-expiration period taken as a whole. And when the entire impact of such royalties is considered, the attempted patent policy justifications for a *per se* ban fail. *See* Part I.A., *infra*.

Marvel's new *stare decisis* argument – pointedly not endorsed by the government – is similarly flawed. Marvel speculates (Resp. Br. 11 & 32-33) that overruling *Brulotte* would upset settled expectations because some hypothetical contracting parties that intended for patent royalty accrual to end at patent expiration may have relied on *Brulotte*'s background rule instead of explicitly specifying the accrual termination date in their license. Thus overruling *Brulotte*, Marvel contends, would open the door to widespread strategic demands by dishonest licensors, who would take advantage of this intentional ambiguity to now demand additional royalties for expired patents. *Id.*

But licenses where the parties expressly contemplated that patent royalty accrual would end at patent expiration, but then, relying on *Brulotte*, intentionally left the issue ambiguous, are very unlikely to exist in the real world. As explained in detail below, *see* Part II.A., *infra*, no sensible patent licensor who was aware of *Brulotte* would choose to draft an agreement this way because doing so would entail the risk of rendering the licensed patent unenforceable against all potential infringers on the grounds of patent misuse.

* * *

Categorical prohibitions may make sense when the practice being proscribed is always, or almost always, socially harmful. But patent royalties on post-expiration use, as even Marvel (Resp. Br. 43) and the government (US Br. 27) concede, are frequently

socially beneficial. Why, then, should they be prohibited *per se*? At bottom, Marvel and the government each invite this Court to retain a *per se* rule that makes no economic sense and hampers innovation on the basis of a formalistic and cropped view of patent policy that itself does not survive closer examination. *Brulotte* should be overruled.[1]

I. *Brulotte*'s *Per Se* Ban Remains A Rule Without A Reason.

A. Patent Policy Does Not Support *Brulotte*.

One telling aspect of the disarray among *Brulotte*'s defenders is that they cannot even agree on *what* patent policy supposedly justifies a *per se* ban on patent royalties on post-expiration use.

---

[1] In its brief on the merits, Marvel argues for the first time that the agreement at issue in this case, as a matter of contract interpretation under New York law, "require[s] no further royalties for petitioners, regardless of *Brulotte*." Resp. Br. 55. This contention is incorrect, but, more importantly, it is now beside the point. Marvel had ample opportunity to make this argument in the lower courts, but chose not to. The argument consequently has been waived. *Compare* Reply Brief for Petitioner, at 6-7 & n.4, *Scheiber v. Dolby Labs., Inc.*, 537 U.S. 1109 (2003), No. 02-689 (Dec. 16, 2002) 2002 WL 32133591 (*available at* https://drive.google.com/file/d/0B94nb-XSCpNUYXRDS1A2MGtVM04yMzhmcXllcVNfS3h5RTMw/view?usp=sharing) (acknowledging that respondent-licensee in that case did not waive contract interpretation argument because it had consistently made it below, and at the petition stage, as an alternative to its *Brulotte*-based argument).

1. The government, reprising the position it took at the petition stage, offers the broadest formulation, arguing that *Brulotte* "reflects the Court's understanding that, once a patent expires, the federal patent laws reflect an affirmative policy of unrestricted public access to the formerly-patented invention." US Br. 11. But patent royalties on post-expiration use indisputably do not preclude the public at large from practicing the invention after patent expiration – even Marvel concedes that much. Resp. Br. 42. Consequently, if, as the Ninth Circuit pointed out in this case, patent "[e]xpiration . . [already] accomplishes what it is supposed to accomplish" because "[a]fter the patent expires, anyone can make the patented process or product without being guilty of patent infringement," Pet. App. 24 (internal quotation marks omitted), how does *Brulotte*'s categorical prohibition on such royalties further this proffered patent policy? The government does not even try to explain.

2. Eschewing the government's approach, Marvel instead makes a narrower – but no less erroneous – argument. "Federal patent policy," Marvel says, "requires taking account of the public interest in benefitting from the unrestricted exploitation of the invention *by the licensee*" – in other words, "the overriding consideration is . the general public's right to *buy* [the licensed product] from him." Resp. Br. 38 (internal quotation marks, some emphases, and some brackets omitted).

But what, exactly, is the nature of this "right"? The licensor cannot stop the licensee from supplying

the public after patent expiration; its only remedy at that point is a suit for damages for breach of contract, not injunctive relief. And the public obviously cannot compel the licensee to supply it should the licensee choose to cease manufacture. Thus what is actually at issue are the *prices and outputs* at which the licensee supplies the public. Indeed, Marvel expressly concedes this, arguing that "allowing a patentee to demand royalties on a licensee's post-expiration use would affect the licensee's prices or outputs in the post-expiration period." Resp. Br. 46; *see also* US Br. 30-31 (same).

But why are prices and outputs exclusively, or even primarily, a concern of patent rather than competition policy? Marvel does not say. And, in any event, Marvel's analysis ignores the other factors influencing the relevant prices and outputs – (i) the public will already have benefited (as the government previously has acknowledged) from *lower prices and increased output* during the patent term because the licensor will have had to lower the royalty rate or defer the start of the royalty accrual period in exchange for the licensee having agreed to patent royalties on post-expiration use, and (ii) the continued royalty obligation may incentivize new market entrants post-expiration, who will undercut the licensee on price, further benefitting the public. *See* Pet. Br. 38-39 (citing sources); 2007 DOJ/FTC Report[2]

---

[2] U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting*

(Continued on following page)

at 118 n.20 ("The countervailing benefit to society from allowing the licensor greater freedom to contract is the reduction in royalty rate, and hence prices, during the patent period that occurs as the licensor adjusts the license to induce a licensee to accept the longer term.") (internal quotation marks omitted). Why should patent policy – or competition policy, for that matter – be deployed categorically to favor higher prices during the patent term, with a price cut thereafter, over an upfront price cut? Again, Marvel does not explain.

3. *Amici* supporting Marvel proffer still another patent policy formulation – one that, in turn, neither Marvel nor the government apparently endorses. Patent royalties on post-expiration use, these *amici* argue, are "anathema to patent policy" because of their supposed effect on follow-on innovation – "the licensee will have less incentive to build improved products based on the licensed patent, knowing that such improved products will only trigger more royalty payments down the road." Public Knowledge *Amicus* Br. 14; *see also* Feldman *Amicus* Br. 21-22 (same); AIPLA *Amicus* Br. 11-12 (same).

But this argument, too, overlooks a key part of the overall picture. If the parties agree to patent royalties on post-expiration use, the licensor gives up

---

Innovation and Competition (Apr. 2007) ("2007 DOJ/FTC Report"), *available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf.

revenue, and assumes more risk of innovation failure, from the start. *See* Pet. Br. 31-33 & n.17 (citing sources). The licensee, by contrast, initially bears less risk of innovation failure, and keeps more revenue, as a result of having traded a longer royalty base for an upfront royalty rate discount or deferral of the start of the royalty accrual period. *Id.* Applying the logic of these *amici*'s own argument, then, the licensee not only has more resources at the outset to build on the licensor's invention and to create follow-on innovation, but also is *incentivized* to devote those additional resources to further innovation. *See* 3 Roger M Milgrim & Eric E. Bensen, *Milgrim on Licensing* §18.05 (2014) ("The low royalty rate might help the licensee in the early investment phase and thereby encourage it to take the risks to launch new, and thus inherently risk-prone, technology."). And this follow-on innovation head-start, in turn, could well result in more innovation overall, and thus a larger revenue pie, that the licensee can then share with the licensor in the post-expiration period, while still generating greater profits for itself than it would have done had it not licensed the invention with an upfront royalty rate discount or deferral of the start of the royalty accrual period.

The arrangement is thus, in business terms, a win-win – if the invention turns out to be commercially worthwhile, the licensee's own ability to build on it will have been aided, not hampered, by the risk-redistributive effect of patent royalties on post-expiration use. *See* Memorial-Sloan Kettering Cancer

Center, et al. Merits-Stage *Amicus* Br. 12 & 17-18. And it is for this reason that patent policy, properly understood, not only fails to support *Brulotte*'s rigid *per se* prohibition on collecting patent royalties based on post-expiration use, but actually favors discarding it. Pet. Br. 29-36.

B. The Unnecessary Complexity and Transaction Costs *Brulotte* Imposes On Hybrid Licensing Further Suppress Innovation.

Marvel and the government assert that *Brulotte*'s *per se* prohibition somehow doesn't matter because it supposedly is "narrow." Resp. Br. 14-17 & 44; US Br. 30-31. Licensing professionals know better.

Petitioners already have discussed, in their opening brief, how *Brulotte* discourages commercialization of life-saving medical treatments by universities and research hospitals by interfering with the parties' ability to balance and allocate the risks of developing and commercializing new technology. Pet. Br. 31-36; *see also* Memorial Sloan Kettering Cancer Center, et al. Merits-Stage *Amicus* Br. 11-12 & 17-18. Suffice it to say that Marvel and the government have yet to explain how the supposed narrowness of *Brulotte*'s *per se* prohibition in any way mitigates this innovation-suppressing effect.

But there is more. As several *amici* have pointed out, *Brulotte* also discourages innovation by unnecessarily increasing the complexity and cost of "hybrid" licensing – i.e., transactions involving both patent and non-patent intellectual property. *See* BioTime *Amicus* Br. 4-8; *see also* Memorial Sloan Kettering Cancer Center, et al. Merits-Stage *Amicus* Br. 24-25.

Marvel argues that "hybrid" licensing provides a path around the *Brulotte* prohibition because, as long as the parties separately value the patent and non-patent royalty streams, the latter may continue after patent expiration. Resp. Br. 16-17. But, in the real world, the complexity of this separate valuation requirement, imposed by *Brulotte*, significantly increases the probability that socially-beneficial licensing transactions simply will not occur.

At the time the parties are negotiating a licensing agreement to early-stage technology, the relevant patents may not have been issued, and, indeed, the relevant patent applications may not even have been filed. Consequently, the parties will not yet know what those patents ultimately will cover, as they will have no idea what claim scope – broad or narrow – the Patent Office ultimately will allow. BioTime *Amicus* Br. 4-5. At the same time, because the relevant commercial products may not yet exist – and may not exist for years – the parties also may not know what non-patent intellectual property those products ultimately will incorporate. BioTime *Amicus* Br. 5.

Against this background of uncertainty, the parties "are thrust [by *Brulotte*] into a negotiation over the relative value of the patent and non-patent rights in the technology, and a battle over the assumptions used in, and the results of, any forecast of the market for the pertinent technology and future benefits attributable to each component of the IP." Tim Reckart, *Are Royalty Structures in Hybrid Licenses About To Get Simpler?*, February 4, 2015.[3] At best, "requiring parties to distinguish the value of the licensed patent rights from the licensed non-patent rights significantly increases the transaction costs associated with the license." BioTime *Amicus* Br. 8. At worst, forcing them into this exercise "increases the risk that the prospective deal" will be "stillborn." Reckart, *supra*.

C. The Parade Of Horribles Marvel Conjures Up Is Illusory.

Marvel speculates that overruling *Brulotte* would exacerbate royalty stacking and benefit patent trolls. Resp. Br. 50-52. Not so.

1. Each of the commentators Marvel cites (Resp. Br. 50-51) in support of its royalty stacking argument – Mark Lemley and Douglas Melamed of Stanford, and Carl Shapiro of Berkeley – expressly

---

[3] *Available at* http://rllaz.com/intellectual-property/are-royalty-structures-in-hybrid-licenses-about-to-get-simpler.

has called for *Brulotte* to be overruled. Pet. Br. 14 (Shapiro); *id.* 44 n.19 (Melamed); *id.* 14-15 n.7 & 25 n.11 (Lemley). This should immediately signal that there is a logical hole in Marvel's royalty stacking argument – and there is.

Royalty stacking occurs when a number of patents read on a particular product, and each must be licensed in order for the product to remain on the market. If *Brulotte* is overruled, Marvel argues, the burden of royalty stacking will increase because patent royalties will be "permitted to stack up forever." Resp. Br. 51.

But, as "a tidal wave of legal and economic scholarship point[s] out, the idea that you can," in "the post-expiration patent royalty setting," lever your way to "a longer and therefore greater . . . monopoly is economic nonsense, imputing systematic irrationality to businessmen." *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1020 (7th Cir. 2002) (Posner, J.). "[I]f the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower." *Id.* at 1017. Thus, as the government itself previously has noted, overruling *Brulotte* will not increase the overall patent royalty burden in such situations. *See* 2007 DOJ/FTC Report at 118 n.18 ("Once a patent expires, a licensee can use the patent for no charge," and it "is therefore unclear how a licensor could persuade a licensee to pay more than the amount the licensee would be willing to pay to use the patent during its term.").

2. Marvel's patent troll argument suffers from the same conceptual defect. A licensor cannot extract additional patent royalties by relying on post-expiration use because a lower royalty rate compensates for a longer royalty base. Pet. Br. 19-25 (citing numerous sources). Consequently, there is no reason to believe that patent trolls would find such royalties especially attractive.

On the contrary, patent royalties on post-expiration use are fundamentally incompatible with the conventional patent troll business model. Such royalty arrangements involve (i) business risk, because, if the licensed product ceases to be successful, few or no payments will be forthcoming, (ii) credit risk, because the licensee may fail to pay what is owed, and (iii) monitoring and compliance costs, because the licensor will need to audit the licensee from time to time to make sure that royalties are properly calculated and paid. In other words, patent royalties on post-expiration use make sense for parties that wish to engage in a long-term business relationship.

Patent trolls operate in a completely different way:

> [T]rolls rarely resolve patent assertions with running royalties. Because their interest is in generating cash and their business models often depend critically on cash flow from patent assertions, they have no incentive to prefer running royalties and, if anything, are likely to prefer lump-sum payments.

Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117, 2134 (2013).

In other words, because patent trolls favor guaranteed up-front rewards over long-term risks, the notion that lifting the *per se* prohibition on patent royalties on post-expiration use somehow will benefit them is incorrect.

D. The Rule Of Reason Provides An Appropriate Test For Scrutinizing Licensing Arrangements Involving Patent Royalties On Post-Expiration Use.

Marvel and the government do not dispute that the rule of reason framework has not, for many years, been an antitrust-only test. Rather, the courts of appeals also have, for decades, "invoked antitrust's rule of reason as a determinant in most patent misuse cases." 1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* §3.2e. at 3-12 (2d ed. 2015) ("Hovenkamp IP & Antitrust Treatise"); *see also id.* §3.2 at 3-6–3-13 (surveying cases in this area). Relying on the rule of reason if *Brulotte* is overruled would thus be the most measured step the Court could take, simply harmonizing the analysis of patent royalties on post-expiration use with existing patent misuse law.

Marvel nonetheless argues (Resp. Br. 54-55) that such royalties should, at a minimum, be "presumptively unlawful" – a test that exists in no other area of patent misuse jurisprudence. Why should the Court take the radical step of crafting a *sui generis* misuse test for patent royalties on post-expiration use? Marvel offers two reasons, but neither is convincing.

Marvel first asserts that its proposed test should be adopted because it "is reasonable at least to presume, as *Brulotte* did, that a licensee would agree to pay for post-expiration royalties only as a result of improper patent leverage." Resp. Br. 54. But given the repudiation of the patent-equals-market-power presumption in the years since *Brulotte,* Pet. Br. 41-45, the overwhelming evidence that such royalties frequently make business sense for both parties and are socially beneficial, Pet. Br. 29-40, and the broad consensus that such arrangements do not enable the licensor to extract additional patent royalties because a lower royalty rate compensates for a longer royalty base, Pet. Br. 19-25, why, exactly, is it still "reasonable" to continue to make *Brulotte*'s underlying assumption? Marvel does not explain.

Marvel next contends that such a presumption also is justified because patent royalties on post-expiration use "are contrary to the public policies of the Patent Act." Resp. Br. 54-55. But, as Petitioners already have demonstrated, that is simply not the case – such royalties promote rather than hamper innovation and advance the goals of the patent

system. *See* Part I.A., *supra* & Pet. Br. 29-36. Thus the presumption Marvel proposes cannot be justified on this ground either.

The government makes the additional – and frankly startling – argument that rule of reason analysis should not be employed to scrutinize patent royalties on post-expiration use because "the Patent Act operates through bright-line rules rather than through case-specific comparisons of benefits and harms." US Br. 9-10 & 27. But this Court repeatedly has said precisely the opposite, chastising the Federal Circuit in case after case for adopting bright-line rules under the Patent Act instead of engaging in contextualized analysis. *See, e.g., Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722, 737-41 (2002) (rejecting, on the government's recommendation, the bright-line complete bar file-wrapper estoppel rule in favor of case-specific analysis); *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-94 (2006) (rejecting bright-line rule making permanent injunctions virtually always available in patent cases in favor of case-specific analysis); *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398, 418-19 (2006) (rejecting application of TSM test in obviousness analysis as a "rigid and mandatory formula[]" in favor of a flexible case-specific approach). The premise of the government's argument against the application of the rule of reason framework is thus demonstrably incorrect.

II. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte*.

Marvel's *stare decisis* analysis largely recycles the arguments it – and the government – already had made at the petition stage, and to which Petitioners anticipatorily responded in their opening brief. Pet. Br. 49-58. Consequently, only a few key points bear re-emphasis.

A. Overruling *Brulotte* Would Raise No Reliance Concerns.

Marvel's only genuinely new *stare decisis* argument – pointedly not endorsed by the government – is that overruling *Brulotte* could upset settled expectations because some hypothetical contracting parties that intended for patent royalty accrual to end at patent expiration may have relied on *Brulotte*'s background rule instead of explicitly specifying the accrual termination date in their license. Resp. Br. 11 & 32-33; *see also* Washington Legal Foundation *Amicus* Br. 6 & 23-24. Thus overruling *Brulotte*, Marvel speculates, could open the door to widespread strategic demands by dishonest licensors, who would take advantage of this intentional ambiguity to now demand additional royalties for expired patents. *Id.*

But agreements where the parties expressly contemplated that patent royalty accrual would end at patent expiration, but then, relying on *Brulotte*, intentionally left the issue ambiguous, are very

unlikely to exist in the real world – for a straightforward reason. The Federal Circuit (and other courts of appeals before it) have long characterized *Brulotte* not merely as a rule of royalty uncollectibility, but rather as one of patent misuse. *See, e.g., Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) ("[A]rrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties" are "*per se* patent misuse" (citing *Brulotte*)); 1 Hovenkamp IP & Antitrust Treatise §3.3c1 at 3-31 ("While *Brulotte* itself did not invoke the patent misuse doctrine, merely speaking of the unenforceability of the royalty agreement itself, term extension has been accepted into the canon of patent misuse. Thus, it seems clear that . . a license of a patent expiring in 2010 that required royalties to be paid on all products sold until 2020 . would constitute patent misuse.").

Consequently, no sensible patent licensor would intentionally agree to leave the royalty accrual end date ambiguous if the parties had in fact been aware of *Brulotte* and had contemplated that accrual would end at patent expiration, because entering into such an agreement would entail the risk of rendering the licensed patent worthless. An unlicensed competitor could defend against an accusation of infringement on the ground that the ambiguous agreement *does* in fact provide for patent royalties for post-expiration use, and the licensed patent thus is unenforceable, and damages are uncollectible, against all potential infringers on the grounds of patent misuse. *See, e.g.*,

Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678, 679-81 (6th Cir. 1966) (patent in suit held unenforceable due to license agreement construed to require patent royalties on post-expiration use); *American Securit Co. v. Shatterproof Glass Co.*, 268 F.2d 769, 777 (3d Cir. 1959) (same) (alternative holding); 1 Hovenkamp IP & Antitrust Treatise at §3.6a at 3-71 ("The fundamental remedy for intellectual property misuse is that the intellectual property right or rights that have been misused are rendered unenforceable. If a patentee has misused its patent, the courts will neither enjoin infringement of that patent nor award damages to the patentee. . Further, a patentee tarred with a misuse finding cannot enforce the patent against any defendant, whether or not there is a relationship between the misuse and the recovery it seeks.").

Because the risk of patent unenforceability on this basis has been present for as long as the holding of *Brulotte* has been in effect, *see Rocform*, 367 F.2d at 679-81, it is very unlikely that a meaningful number of license agreements of the type posited by Marvel actually exist. Consequently, reliance interests would not be significantly implicated by reconsideration of *Brulotte*. Pet. Br. 57-58.

B. If *Brulotte* Is Statutory For *Stare Decisis* Purposes, It Is Also Constitutional For *Stare Decisis* Purposes.

Marvel and the government continue to insist that overturning *Brulotte* is a matter for Congress,

not this Court, and that considerations of *stare decisis* apply with "special force" here, because *Brulotte* is a "statutory precedent." Resp. Br. i & 13; US Br. 19. But in so doing, they ignore the logical implications of their own argument.

The Court's opinion in *Brulotte* simultaneously cited *two* limited patent term provisions – Art. I, §8, cl. 8 of the Constitution, which "authorizes Congress to secure 'for limited times' to inventors 'the exclusive right' to their discoveries," and 35 U.S.C. §154, which, at the time, provided for a seventeen-year patent term. *Brulotte*, 379 U.S. 30, Pet. App. 74-75. Thus, to the extent that the *per se* rule announced in *Brulotte* is seen as statutory for *stare decisis* purposes simply because it was fashioned against the background principle of limited patent terms embodied in section 154, that *per se* rule, by parity of reasoning, must also be seen as at least partly constitutional for *stare decisis* purposes, as it was equally fashioned against the same background principle of limited patent terms embodied in Art. I, §8, cl. 8. Indeed, even *amici* supporting Marvel acknowledge this. *See* Public Knowledge *Amicus* Br. 9 ("*Brulotte* is a simple corollary to the patent policy goals expressed in [Art. I, §8, cl. 8 of the Constitution].").

But if that is so, then the logical consequence of Marvel's position is that *stare decisis* applies with *less* force here, not more. This Court has never hesitated to reconsider prior constitutional decisions, as "correction through legislative action is practically

impossible." *Payne v. Tennessee*, 501 U.S. 808, 828 (1991) (internal quotation marks omitted).

Although Marvel itself publicly described *Brulotte* as a rule "with constitutional moorings"[4] a mere three months ago, it now says that *Brulotte* has no constitutional basis because "*Brulotte*'s application has always been tied to the patent term set by statute, which does not remotely approach the outer bounds of Congress's authority to authorize patents for 'limited Times.'" Resp. Br. 19 n.7. But nothing in *Brulotte* turned on Congress' choice, at the time, to set the patent term at seventeen years rather than ten or twenty or fifty. The key point, rather, was that the Court in *Brulotte* (erroneously) viewed patent royalties on post-expiration use as rendering the patent term, whatever its statutory boundary, potentially unlimited – a premise that cannot logically implicate the policies underlying the statute without also implicating the policies underlying the "limited times" clause of the Constitution.

Consequently, this is a singularly inappropriate case in which to "place on the shoulders of Congress the burden of the Court's own error." *Monell v. Dep't of Soc. Servs.*, 436 U.S. 658, 695 (1978) (internal quotation marks omitted). At a minimum, whether

---

[4] Letter from Seth P. Waxman and Thomas G. Saunders to Guy Donatiello, Amicus Committee, American Intellectual Property Law Ass'n at 1 (December 18, 2014) (proposal to lodge pursuant to Rule 32.3 pending).

Brulotte is susceptible to Congressional correction is legitimately in question. And the Court cannot address the issue in this case without rendering an impermissible advisory opinion about the propriety of a hypothetical Congressional enactment. Thus the more prudent course is for the Court itself to act to overrule *Brulotte*.

C. Congress' Past Legislative Activity Presents No Bar To Overruling *Brulotte*.

Additionally, even putting aside the question of whether Congress has the power to abrogate *Brulotte*, its past failure to do so presents no bar to the Court now overruling that decision. On the contrary, this Court consistently has warned against "the danger of placing undue reliance on the concept of congressional 'ratification,'" *Patterson v. McLean Credit Union*, 491 U.S. 164, 175 n.1 (1989), and has reconsidered its own precedent notwithstanding essentially identical instances of Congressional inaction.

This Court's decision in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 41, 45-46 (2006), for example, involved the very same ultimately-enacted legislation, the Patent Misuse Reform Act of 1988, and even one of the same proposed bills, S. 438, as that relied upon by Marvel here. *Compare* Brief for Respondent Independent Ink, Inc. at 34-35, *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28

(2006), No. 04-1329 (Sept. 28, 2005)[5] *with* Resp. Br. 22 & 25-26. And the respondent in *Illinois Tool Works* had argued that the four prior decisions establishing "the patent-equals-market-power presumption" in the antitrust tying context should not be overruled for essentially the same reasons Marvel advances now:

> Congress has had ample opportunity to eliminate the market power presumption, but has repeatedly declined to do so. [¶] For example, Congress considered proposals to eliminate the patent tying presumption from antitrust law when it enacted the Patent Misuse Reform Act of 1988, but the final legislation omitted any such proposal. The Senate bill contained a provision eliminating the presumption, *see* S. 438 (proposing the "Intellectual Property Antitrust Protection Act of 1988" to provide that an intellectual property right "shall not be presumed to define a market or to establish market power"), but the House deleted that provision and the Senate later acquiesced to the House version. *See* Patent Misuse Reform Act, PL 100-703 (1988) (containing no such provision).

Brief for Respondent Independent Ink, Inc. at 34-35.

---

[5] *Available at* http://www.americanbar.org/content/dam/aba/publishing/preview/publiced_preview_briefs_pdfs_05_06_04_1329_Respondent.authcheckdam.pdf.

In response, the government, in its *amicus* brief in *Illinois Tool Works*, condemned as "unsound" the suggestion that Congress had endorsed the patent-equals-market-power presumption because of its "failure to adopt [the] proposed statutory language," and argued that the prior cases should be overruled – a suggestion this Court followed. *See* Brief for the United States As *Amicus Curiae* at 6 & 15 n.11, *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), No. 04-1329 (Aug. 4, 2005), 2005 WL 1864093.

Similarly, in *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 320, 327 n.17, 339-42 (1971), this Court, in overruling a prior decision and rejecting the "judge-made doctrine" of mutuality of estoppel in patent litigation, refused to find Congressional ratification of the prior rule despite "the introduction of several bills" to effect relevant changes, congressional hearings on the issue, and an intervening reform of the Patent Act. And, in *Blonder-Tongue*, the government again argued that alleged Congressional ratification was entitled to little weight:

> Congress' failure to act on [the] various legislative proposals which have . been introduced [to change the relevant rule is] without significance. This Court created the [relevant] rule . , and this Court appropriately may modify [it].

Brief for the United States As *Amicus Curiae* at 41 & 44, *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*,

402 U.S. 313 (1971), No. 70-338 (Jan. 8, 1971) 1971 WL 133763.

This Court similarly created *Brulotte*'s *per se* bar, and thus Congress' failure to act – applying the government's own logic from its brief in *Blonder-Tongue* – presents no obstacle to overruling *Brulotte* now.

CONCLUSION

The judgment of the court of appeals should be vacated, and the case remanded with directions for the lower courts to evaluate the agreement in this case under the rule of reason.

Respectfully submitted,

ANTONIO R. DURANDO

ROMAN MELNIK*
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN & WEATHERWAX LLP

*Also Lecturer in Law
USC GOULD SCHOOL OF LAW
699 Exposition Blvd.
Los Angeles, CA 90089

March 24, 2015

Counsel for Petitioners

SUPPLEMENTAL BRIEF

No. 13-720

Supreme Court, U.S.
FILED
NOV 18 2014
OFFICE OF THE CLERK

In The
Supreme Court of the United States

STEPHEN KIMBLE AND ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

SUPPLEMENTAL BRIEF FOR PETITIONERS

ANTONIO R. DURANDO
6902 N. Table Mountain Road
Tucson, AZ 85718
(520) 243-3383

ROMAN MELNIK
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN & WEATHERWAX LLP
11400 W. Olympic Blvd., Ste. 400
Los Angeles, CA 90064
(310) 307-4500
melnik@glwllp.com

Counsel for Petitioners

November 2014

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

TABLE OF CONTENTS

	Page
INTRODUCTION	1
ARGUMENT	2
I. The Government Does Not Address Petitioners' Main Argument As To Why Patent Policy Does Not Justify A Blanket Prohibition On Collecting Patent Royalties Based On Post-Expiration Use	2
II. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte*	7
III. There Is No Vehicle Problem Precluding Reexamination Of *Brulotte*	10
CONCLUSION	11

TABLE OF AUTHORITIES

Page

CASES

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) 5

Brulotte v. Thys Co., 379 U.S. 29 (1964) ..... *passim*

Cohn v. Compax Corp., 451 N.Y.S. 2d 171 (App. Div. 1982) 11

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) 5

Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394 (1947) 5

Halliburton Co. v. Erica P. John Fund, Inc., 134 S. Ct. 2398 (2014) 7, 8

Kimble v. Marvel Enters., Inc., 727 F.3d 856 (9th Cir. 2013) 1, 3-4, 10

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) 5

Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877 (2007) 2

Meehan v. PPG Indus., Inc., 802 F.2d 881 (7th Cir. 1986) 10

Miller v. Eagle Mfg. Co., 151 U.S. 186 (1894) 6

Monell v. Dep't of Soc. Servs., 436 U.S. 658 (1978) 9

Payne v. Tennessee, 501 U.S. 808 (1991) 8, 9

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014 (7th Cir. 2002) 4

TABLE OF AUTHORITIES – Continued

Page

Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945) 5

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) 5

Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896) 5

Zila, Inc. v. Tinnell, 502 F.3d 1014 (9th Cir. 2007) 10

CONSTITUTION AND STATUTES

U.S. Const. Art. I, § 8 8

35 U.S.C. § 154 8

OTHER AUTHORITIES

Thomas F. Cotter, "Postexpiration Patent Royalties" (Nov. 5, 2014) *available at* http://comparativepatentremedies.blogspot.com/2014/11/postexpiration-patent-royalties.html 6

Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953 (2005) 12

Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* (2d ed. 2013) 11

TABLE OF AUTHORITIES – Continued

Page

U.S. Dep't of Justice and FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007) *available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf.....1, 4, 6

INTRODUCTION

Courts of appeals do not casually characterize decisions of this Court as "dubious . [in] reasoning" and "out of touch with the Supreme Court's current thinking," or lightly call for them to be overruled – yet each of the last three appellate panels to apply *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) has done just that. Pet. 15 (citing cases).

In academia, where tenure is obtained by saying something different, unanimity is rare – yet there is an undisputed authoritative consensus among treatises and commentators in the patent, licensing, and antitrust fields that *Brulotte*'s rigid *per se* prohibition on collecting patent royalties based on post-expiration use is misguided, and should be discarded in favor of a more flexible, case-by-case analysis. Pet. 12-16 (citing treatises and articles); Reply 2-3 n.2 (same).

Until a few weeks ago, the government was part of this consensus. It had publicly declared *Brulotte*'s "'*per se* condemnation of royalty payments beyond the life of a patent'" to be "'**unsound**,'" Reply 1-2 n.1 (quoting 1988 U.S. Patent and Trademark Office position paper) (emphasis added), and had expressly agreed, following extensive hearings at which it had received testimony from numerous legal and economic experts, that the purported patent policy concerns animating *Brulotte* were based on a mistaken premise. Pet. 19 (quoting 2007 DOJ/FTC Report). Not surprisingly, both the Ninth Circuit in this case, Pet. App. 25 n.7, and academic commentators, Pet. 16, viewed

these pronouncements as a call by the government that *Brulotte* should be overruled.

The Solicitor General now commits the United States to a contrary position, all the while protesting that no flip-flop has occurred. US Br. 14-15 n.4. Importantly, the government's newly-announced approach neither is based on any additional agency analysis, nor purports to draw on any specialized agency expertise. Rather, the government's defense of *Brulotte* relies precisely on the kind of "formalistic line drawing," divorced from economic reality, that this Court has said cannot justify *per se* prohibitions. *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 887 (2007) (quotation marks omitted). Review in this case therefore is warranted despite – in fact, all the more because of – the government's shift in position.

ARGUMENT

I. The Government Does Not Address Petitioners' Main Argument As To Why Patent Policy Does Not Justify A Blanket Prohibition On Collecting Patent Royalties Based On Post-Expiration Use.

The invitation brief suffers from a basic analytical defect. The government never even mentions, let alone rebuts, petitioners' primary argument on the merits – that patent policy does not justify *Brulotte*'s *per se* rule because patent *royalties* on post-expiration

use do not extend the patent *right* into the post-expiration period. Pet. 17-22; Reply 8-9.

The government contends that *Brulotte* was correctly decided, and a rigid *per se* prohibition on collecting patent royalties based on post-expiration use consequently is justified, because such a rule "promote[s] the public's unfettered access to patented inventions after the expiration of the patent term." US Br. 8 & 16. In other words, the government endorses the Court's assumption in *Brulotte* that "exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period." *Id.*, 379 U.S. at 33, Pet. App. 78-79.

As petitioners have explained at length, however, there is a broad consensus among the courts of appeals and experts in the field that this assumption underlying *Brulotte* is mistaken, and that patent policy arguments such as the one advanced by the government here, based on that assumption, therefore are incorrect. Pet. 17-22 (citing cases and secondary materials). As the Ninth Circuit explained in this case:

> 'The Supreme Court's majority opinion [in *Brulotte*] reasoned that by extracting a promise to continue paying royalties after expiration of the patent, the patentee extends the patent beyond the term fixed in the patent statute and therefore in violation of the law. That is not true. After the patent expires, anyone can make the patented process or

> product without being guilty of patent infringement. The patent can no longer be used to exclude anybody from such production. Expiration thus accomplishes what it is supposed to accomplish. *For a licensee in accordance with a provision in the license agreement to go on paying royalties after the patent expires does not extend the duration of the patent either technically or practically, because . if the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower.* The duration of the patent fixes the limit of the patentee's power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.'

Pet. App. 24-25 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (Posner, J.)) (emphasis added).

Until a few weeks ago, the government had agreed with this analysis. In the 2007 DOJ/FTC Report, the Antitrust Division and the FTC, citing *Scheiber*, concluded that the purported patent policy concerns animating *Brulotte* were based on a mistaken premise, because "[o]nce a patent expires, a licensee can use the patent for no charge," and it "is therefore unclear how a licensor could persuade a licensee to pay more than the amount the licensee would be willing to pay to use the patent during its term." U.S. Dep't of Justice and FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting*

Innovation and Competition 12 & 122 (Apr. 2007) ("2007 DOJ/FTC Report") at 118 n.18 (*available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf).

The government's brief neither acknowledges the agencies' prior position, nor engages petitioners' argument on this point. Instead, the government blithely asserts that "*Brulotte* fits comfortably within a line of precedents establishing that the federal patent laws are not indifferent to what happens when a patent's prescribed term expires." US Br. 17. Yet the cases the government cites are readily distinguishable, as they all involved attempts to extend the duration of patent rights *against the public at large*, either (i) by virtue of patent-like state-law rights conferred after patent expiration,[1] or (ii) through contracts that precluded challenges to patent validity, thereby potentially extending the duration of patent rights that might otherwise have been extinguished as a result of a successful invalidity challenge.[2] Royalties on

---

[1] *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169 (1896).

[2] *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945).

Although *Scott Paper* nominally involved a contractual restriction on a non-infringement defense, in substance the defense was one of invalidity, as the accused product was alleged to be in the prior art. *Scott Paper*, 326 U.S. at 251. It is an elementary principle of patent law that proving literal infringement by

(Continued on following page)

post-expiration use, by contrast, indisputably do not preclude the public at large from practicing the invention after patent expiration, and, indeed, encourage new market entrants who can supply the public while undercutting the licensee on price. Pet. 28-29 & n.13 (citing authorities). And even with respect to the royalty-paying licensee, the public is not harmed, for, as the government itself previously had recognized, the "countervailing benefit to society from allowing" royalties on post-expiration use "is the reduction in royalty rate, and hence prices, during the patent period that occurs as the licensor adjusts the license to induce a licensee to accept the longer term." 2007 DOJ/FTC Report at 118 n.20 (quotation marks omitted).

Consequently, as a respected academic has commented in response to the government's brief in this case, "it's hard to see *what* policy, other than an empty formalism, could possibly justify the *Brulotte* rule of per se illegality: once the patent expires, it is free for anyone to use without payment, other than a party who voluntarily agreed to continue paying a license fee (presumably for some other benefit, such as amortization)." Thomas F. Cotter, "Postexpiration Patent Royalties" (Nov. 5, 2014) (*available at* http://comparativepatentremedies.blogspot.com/2014/11/postexpiration-patent-royalties.html). The government's

---

something which then turns out to be in the prior art invalidates the patent claim, as "that which infringes if later, anticipates if earlier." *Miller v. Eagle Mfg. Co.*, 151 U.S. 186, 203 (1894).

failure even to acknowledge this argument significantly weakens the force of its position.

II. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte*.

Perhaps cognizant of the inconsistency between its newly-announced position on the merits and its previous public statements on the issue, the government leads with a procedural argument – *stare decisis*. US Br. 8-11.

Notably, the government does not endorse the suggestion, championed by Respondent (Opp. 20-21), that discarding *Brulotte* somehow would implicate reliance concerns. Pet. 37-38; Reply 13.

The government instead focuses on this Court's recent decision in *Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407, 2411 (2014). US Br. 7-9. Under *Halliburton*, the government asserts, the atextual judge-made rule announced in *Brulotte* nonetheless must be treated as "statutory" for *stare decisis* purposes, and thus may not be reconsidered absent "special justification," because it is a "substantive doctrine" of patent law derived from the policy of limited patent terms. US Br. 7-9 (quotation marks omitted).

There are two significant problems with the government's position.

First, the government's argument proves too much. The Court's opinion in *Brulotte* simultaneously

cited *two* limited patent term provisions – Art. I, § 8 of the Constitution, which "authorizes Congress to secure 'for limited times' to inventors 'the exclusive right' to their discoveries," and 35 U.S.C. § 154, which, at the time, provided for a 17-year patent term. *Brulotte*, 379 U.S. 30, Pet. App. 74-75. To the extent that the *per se* rule announced in *Brulotte* is statutory for *stare decisis* purposes because it was fashioned against the background principle of limited patent terms embodied in section 154, that *per se* rule, by parity of reasoning, is also at least partly constitutional for *stare decisis* purposes, as it was equally fashioned against the same background principle of limited patent terms embodied in Art. I, § 8. And in constitutional cases, of course, this Court has never hesitated to reconsider prior decisions, as "correction through legislative action is practically impossible." *Payne v. Tennessee*, 501 U.S. 808, 828 (1991) (quotation marks omitted).

Second, petitioners have, in any event, provided "special justification" for overruling *Brulotte* that extends beyond a mere explanation for why that "precedent was wrongly decided." *Halliburton*, 134 S. Ct. at 2407. As the petitioners and their *amici* have demonstrated at length (Pet. 22-30, Reply 4-7), *Brulotte* damages the American economy and suppresses innovation because the licensing practices it forbids would provide unique procompetitive benefits – something that has not previously been brought to the Court's attention. The government's brief acknowledges that the *Brulotte* rule inflicts economic harm (US Br. 14),

but tries to sidestep the implications of that admission by arguing that the rule is "narrow and clear." US Br. 19-20. But that is no answer at all. The government does not explain, for example, how the adverse effects of the *Brulotte* rule on commercialization of life-saving medical treatments by universities and research hospitals such as the Memorial Sloan-Kettering Cancer Center (Reply 5-6) are in any way mitigated by the supposed narrowness and clarity of *Brulotte*'s *per se* prohibition. Nor does the government demonstrate what alternative contractual arrangements, permitted by *Brulotte,* would allow such research institutions to balance and allocate the risks of developing and commercializing new technology in the same way that permitting accrual of patent royalties directly based on post-expiration use would. Reply 5-6.

"*Stare decisis* is not an inexorable command; rather, it is a principle of policy and not a mechanical formula of adherence to the latest decision." *Payne*, 501 U.S. at 828 (quotation marks omitted). Where, as here, a new, and largely undisputed, understanding of the harmful real-world economic consequences of *Brulotte*'s *per se* rule has emerged since the Court last considered the issue, nothing compels "plac[ing] on the shoulders of Congress the burden of the Court's own error" – even assuming, *arguendo*, that *Brulotte* is susceptible to Congressional correction. *Monell v. Dep't of Soc. Servs.*, 436 U.S. 658, 695 (1978) (quotation marks omitted).

III. There Is No Vehicle Problem Precluding Reexamination Of *Brulotte*.

Finally, as a desultory afterthought, the government argues that because this case involves a patent assignment rather than a patent license – and this Court has not expressly held that the *per se* prohibition on collecting patent royalties based on post-expiration use applies to assignments – there is a vehicle problem that precludes reexamination of *Brulotte*. US Br. 20-21. The government's attempt to manufacture a procedural obstacle fails for two reasons.

First, the government's argument is illogical. If this Court were to grant certiorari for the purpose of overruling *Brulotte*, it would not *need* to decide whether that *per se* rule applies to assignments, as the rule would, by hypothesis, cease to exist.

Second, it is in any event plain – and the parties in this case agree (Opp. 5-6 n.2) – that *Brulotte*'s *per se* proscription applies to patent assignments. Every court of appeals to consider the issue – including the Ninth Circuit opinion in *Zila* cited by the government (US Br. 21) – has so held.[3] And with good reason. To

---

[3] *See Kimble v. Marvel Enters., Inc.*, Pet. App. 6 & 25-26 (*Brulotte* "applies" to "purchase" of patent); *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1016, 1022 (9th Cir. 2007) (*Brulotte* applies to "agreement . . . that assigned all rights in . . . [an] invention . . in return for royalty payments and company stock."); *Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 882-83, 885-86 (7th Cir. 1986) (*Brulotte* applies to a "contract involv[ing] an assignment of

(Continued on following page)

the extent that *Brulotte* is animated by concerns about either improper patent leverage during contract negotiations or collection of royalty payments based on post-expiration use, *id.*, 379 U.S. at 33, Pet. App. 77-78, those concerns apply with equal force (or equal lack of force) both to patent licenses and patent assignments. The government articulates no cogent argument to the contrary.

CONCLUSION

As Judge Easterbrook has observed, "*Brulotte* [is] wrong in principle – but conclusive on the lower federal judiciary until the Justices deliver the R.I.P."

---

rights in a 'method and apparatus' invented by the plaintiff" and "transferr[ing] the patent"); *see also Cohn v. Compax Corp.*, 451 N.Y.S. 2d 171, 174 (App. Div. 1982) ("no conceptual significance in the distinction" between "a licensing agreement" and "a full assignment and sale of all . . . [patent] rights" for purpose of addressing issue of "whether a sale of rights under pending patent applications is enforceable where the consideration consists of periodic payments, based on use, to continue unabated and undiminished until the expiration of the last patent issued on the basis of the pending applications.").

Respondent's citation to the Hovenkamp IP & Antitrust treatise for a "contrary view" (Opp. 6 n.2) appears to be in error – nowhere in the cited chapter do the authors endorse the proposition that *Brulotte* does not apply to assignments. *See generally* 1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* §23.2e (2d ed. 2013).

Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953, 955 n.7 (2005).

The petition for a writ of certiorari should be granted.

Respectfully submitted,

ANTONIO R. DURANDO

*Also Lecturer in Law
USC GOULD SCHOOL OF LAW
699 Exposition Blvd.
Los Angeles, CA 90089

ROMAN MELNIK*
Counsel of Record
KENNETH WEATHERWAX
NATHAN N. LOWENSTEIN
FLAVIO M. ROSE
GOLDBERG, LOWENSTEIN
& WEATHERWAX LLP
11400 W. Olympic Blvd.,
Ste. 400
Los Angeles, CA 90064
(310) 307-4500
melnik@glwllp.com

Counsel for Petitioners

November 2014

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
MAR - 6 2015
OFFICE OF THE CLERK

No. 13-720

In the Supreme Court of the United States

STEPHEN KIMBLE, ET AL., PETITIONERS

v.

MARVEL ENTERPRISES, INC.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING RESPONDENT

DONALD B. VERRILLI, JR.
Solicitor General
Counsel of Record
BENJAMIN C. MIZER
Acting Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
CURTIS E. GANNON
Assistant to the Solicitor General
MARK R. FREEMAN
KATHERINE TWOMEY ALLEN
Attorneys

Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217

QUESTION PRESENTED

Whether this Court should overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), which held that a license agreement requiring royalty payments for use of a patented invention after expiration of the patent term is unlawful *per se*.

TABLE OF CONTENTS

Page

Interest of the United States 1
Statement 2
Summary of argument 8
Argument:
The Court should not overrule *Brulotte* 10
A. The Court has long understood the federal patent laws to reflect an affirmative policy of free public access to unpatented and formerly-patented inventions 11
B. Principles of *stare decisis* apply with particular force to statutory-interpretation decisions such as *Brulotte* 17
C. Petitioners have not identified a special justification for overruling *Brulotte* 22
1. Antitrust considerations do not justify overruling *Brulotte*'s rule of patent policy 23
2. Petitioners identify no sound reason to believe that the rule announced in *Brulotte* has caused significant real-world economic harm 30
Conclusion 33

TABLE OF AUTHORITIES

Cases:

Aronson v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979) 5, 31
Barnhart v. *Peabody Coal Co.*, 537 U.S. 149 (2003) 21
Bilski v. *Kappos*, 561 U.S. 593 (2010) 18
Bonito Boats, Inc. v. *Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) 2, 11, 12, 16
Brulotte v. *Thys Co.*, 379 U.S. 29 (1964) ..... *passim*
Compco Corp. v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) 14

Cases—Continued: Page

Continental T.V., Inc. v. *GTE Sylvania Inc.*, 433 U.S. 36 (1977) 24
Dickerson v. *United States*, 530 U.S. 428 (2000) 22
Edward Katzinger Co. v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947) 13
Global-Tech Appliances, Inc. v. *SEB S.A.*, 131 S. Ct. 2060 (2011) 17
Halliburton Co. v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398 (2014) 11, 17, 18, 22, 33
Hartford-Empire Co. v. *United States*, 323 U.S. 386 (1945) 28
Hines v. *Davidowitz*, 312 U.S. 52 (1941) 16
John R. Sand & Gravel Co. v. *United States*, 552 U.S. 130 (2008) 17, 22
Lear, Inc. v. *Adkins*, 395 U.S. 653 (1969) 15, 16, 29
Leegin Creative Leather Prods., Inc. v. *PSKS, Inc.*, 551 U.S. 877 (2007) 19, 24, 27
Michigan v. *Bay Mills Indian Community*, 134 S. Ct. 2024 (2014) 17
Morton Salt v. *G.S. Suppiger Co.*, 314 U.S. 488 (1942) 25
Patterson v. *McLean Credit Union*, 491 U.S. 164 (1989) 17, 19
Pfaff v. *Wells Elecs., Inc.*, 525 U.S. 55 (1998) 2, 11, 12
Scott Paper Co. v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1945) ..... *passim*
Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964) 2, 12, 14
Singer Mfg. Co. v. *June Mfg. Co.*, 163 U.S. 169 (1896) 12, 13
State Oil Co. v. *Khan*, 522 U.S. 3 (1997) 19, 24
United States v. *Dubilier Condenser Corp.*, 289 U.S. 178 (1933) 12

Cases—Continued: Page

Watson v. *United States*, 552 U.S. 74 (2007) 20
Zenith Radio Corp. v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969) 31

Constitution and statutes:

U.S. Const. Art. I, § 8, Cl. 8 (Patent Clause) 2, 11
Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676 20
Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) 20
Patent Act, 35 U.S.C. 1 *et seq.*:
35 U.S.C. 2(a)(1) 1
35 U.S.C. 2(b)(8) 1
35 U.S.C. 2(b)(9) 1
35 U.S.C. 154 ..... 15, 18
35 U.S.C. 154 (1988) 2
35 U.S.C. 154(a)(2) 3, 27
35 U.S.C. 154(b) 3, 27
35 U.S.C. 156 ..... 3, 27
35 U.S.C. 156(c) 32
35 U.S.C. 271(a) 2
35 U.S.C. 271(d) 19, 25
35 U.S.C. 271(d)(4) 20, 28
35 U.S.C. 271(d)(5) 20, 32
35 U.S.C. 271(e)(1) 32
Patent Act of 1790, ch. 7, 1 Stat. 109 2
Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532(a), 108 Stat. 4983-4985 20

Miscellaneous: Page

1 Herbert Hovenkamp et al., *IP and Antitrust* (2d ed. 2015) 19, 30

Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary, 100th Cong., 2d Sess. (1988) 21

S. 438, 100th Cong., 2d Sess. (1988) 21

S. 1200, 100th Cong., 1st Sess. (1987) 21

U.S. Dep't of Justice & Fed. Trade Comm'n:

Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (Apr. 2007), www.justice.gov/atr/public/hearings/ip/222655.pdf 25, 26, 27, 30

Antitrust Guidelines for the Licensing of Intellectual Property (Apr. 6, 1995), www.justice.gov/atr/public/guidelines/0558.pdf 24

U.S. Patent No. 5,072,856 (filed May 25, 1990) 5

In the Supreme Court of the United States

No. 13-720

STEPHEN KIMBLE, ET AL., PETITIONERS

v.

MARVEL ENTERPRISES, INC.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES
AS AMICUS CURIAE SUPPORTING RESPONDENT

INTEREST OF THE UNITED STATES

The question presented is whether this Court should overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), which held that a license agreement requiring royalty payments for use of a patented invention after expiration of the patent term is unlawful *per se*. The United States Patent and Trademark Office (PTO) is responsible for "the granting and issuing of patents," 35 U.S.C. 2(a)(1), as well as for advising the President on issues of patent policy and advising federal departments and agencies on matters of intellectual-property policy, 35 U.S.C. 2(b)(8) and (9). Several federal agencies are extensively engaged in the licensing of patented inventions to private entities, and the United States is also a licensee of various patents. The government therefore has a substantial interest in the Court's resolution of the ques-

tion presented. At the Court's invitation, the United States filed a brief at the petition stage of this case.

STATEMENT

1. a. The Constitution authorizes Congress to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Art. I, § 8, Cl. 8. The Patent Clause "reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989); see, *e.g.*, *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

Congress has accordingly established a patent system that grants a patentee certain exclusive rights in his invention for a limited term. "[W]hen the patent expires[,] the monopoly created by it expires, too, and the right to make the article * * * passes to the public." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230 (1964); see 35 U.S.C. 271(a) (providing that the unauthorized use of a patented invention constitutes patent infringement only "during the term of the patent therefor"). To facilitate the public's enjoyment of the invention after the patent expires, the federal patent laws (beginning with the Patent Act of 1790, ch. 7, 1 Stat. 109) have required each patent applicant to disclose his invention in a manner that enables others skilled in the art to make and use it. See, *e.g.*, *Bonito Boats*, 489 U.S. at 147, 150-151.

For more than a century before 1995, a patent remained in force for 17 years, measured from the date the patent was issued. 35 U.S.C. 154 (1988). Since

1995, the Patent Act has provided that a utility patent is effective "for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States" or (if the application claimed priority from an earlier, related application) 20 years "from the date on which the earliest such application was filed." 35 U.S.C. 154(a)(2). In some circumstances, the term may be extended to offset delays in the application process. 35 U.S.C. 154(b), 156.

b. In *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), this Court considered the effect of a royalty agreement that required payments for the use of a patented invention both before and after the patent term had expired. *Id.* at 29-30. The patent holder (Thys) had sold hop-picking machines and issued licenses for their use, but the licensees refused to pay royalties called for by the licenses. *Id.* at 30. When Thys sued to enforce the licenses, the licensees contended in part that the "extension of the license agreements beyond the expiration date of the patents" constituted patent misuse. *Ibid.*

This Court held that royalties for using the machines could not be collected to the extent that they "accrued after the last of the patents incorporated into the machines had expired." *Brulotte*, 379 U.S. at 30. The Court explained that Congress had authorized patents to be granted for a limited term of 17 years, "[b]ut these rights become public property once the 17-year period expires." *Id.* at 31. In the Court's view, any attempt to continue the patent monopoly beyond the expiration date, including through the collection of royalties for using the patented invention after that date, would "run[] counter to the policy and purpose of the patent laws" by conflicting with "the free market

visualized for the post-expiration period." *Id.* at 31, 32 (citation omitted). The Court also stated that using the exclusive rights afforded by a patent as leverage to project royalty payments beyond the patent term "is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones." *Id.* at 33. The Court described agreements providing for post-expiration royalties as "unlawful *per se*." *Id.* at 32.

The lower court in *Brulotte* had viewed the licenses there as merely providing for deferred payment of royalties for pre-expiration use of the patented invention. 379 U.S. at 31. This Court described the "intrinsic evidence" in that case as indicating "that the agreements were not designed with that limited view." *Ibid.* Instead, the Court explained, "[t]he royalty payments due for the post-expiration period [we]re by their terms for use during that period, and [we]re not deferred payments for use during the pre-expiration period." *Ibid.*

Justice Harlan dissented. *Brulotte*, 379 U.S. at 34-39. He found it "clear that if Thys licensed another manufacturer to produce hop-picking machines incorporating any of the Thys patents, royalties could not be exacted beyond the patent term. Such royalties would restrict the manufacturer's exploitation of the *idea* after it falls into the public domain, and no such restriction should be valid." *Id.* at 35. In Justice Harlan's view, however, a different result was appropriate where (as in *Brulotte* itself) a royalty obligation was triggered only by the use of particular machines that the licensees had acquired from the patent holder. See *ibid.*

Fifteen years later, the Court considered an agreement that established one royalty rate (5%) if a patent

issued within five years and a lower rate (2½%) if a patent did not issue. See *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 259-260 (1979). No patent was ultimately issued. *Id.* at 260. The Court explained that "[c]ommercial agreements traditionally are the domain of state law," and that "[i]n this as in other fields, the question of whether federal law pre-empts state law involves a consideration of whether that [state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Id.* at 262 (citations and internal quotation marks omitted). The Court held that the lower royalty rate could be enforced because it did not reflect an attempt to obtain improper leverage from any granted patent. *Id.* at 265. The Court distinguished *Brulotte* on the ground that "the reduced royalty which is challenged [in *Aronson*], far from being negotiated 'with the leverage' of a patent, rested on the contingency that no patent would issue within five years." *Ibid.* (quoting *Brulotte*, 379 U.S. at 33).

2. In May 1990, petitioner Stephen Kimble applied for a patent for a glove that allows its wearer to mimic the comic-book hero Spider-Man by shooting pressurized foam string from the palm. U.S. Patent No. 5,072,856 (filed May 25, 1990); Pet. App. 3-4.[1] Later that year, Kimble discussed his then-pending patent application and other "ideas and know-how" with the president of respondent's corporate predecessor. *Id.* at 4. After the meeting, the company began to manufacture a similar toy called the "Web Blaster." *Ibid.*

In 1997, Kimble sued for patent infringement and for breach of contract on the basis of an alleged oral

---

[1] Robert Michael Grabb later acquired an interest in the patent (Pet. App. 3 n.1) and is also a petitioner in this Court.

agreement to compensate him for any use of his ideas by the company. Pet. App. 5. The district court granted summary judgment to respondent on the patent-infringement claim, but a jury later found that respondent had breached a contractual promise to Kimble. *Ibid.* Both parties appealed. *Ibid.*

In 2001, while the appeals were pending, the parties settled their dispute. Pet. App. 5. As part of the settlement, respondent agreed to purchase the patent in exchange for a lump-sum payment and a running royalty on respondent's future sales of the disputed product. *Id.* at 5-6. In relevant part, the settlement agreement provided that "[t]he purchase price for the Patent shall be payable to the Patent Holders as follows:"

> a. $516,214.62 upon execution and delivery of this Agreement; and
>
> b. 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

J.A. 18-19.[2]

---

[2] The settlement agreement was structured as a transfer of the entire patent. J.A. 24-26. In *Brulotte*, by contrast, the patentee retained ownership of the patent while licensing its customers to use particular patented machines. See 379 U.S. at 31. Because the parties do not dispute that *Brulotte* applies in these circumstances, see Pet. Br. i; Pet. Supp. Cert. Br. 10; Resp. Br. 9 n.3, the Court may decide the case on that assumption.

The patent expired on May 25, 2010, but the settlement agreement and its royalties clause had "no expiration date." Pet. App. 4, 6. The parties have represented that they were unaware of *Brulotte* when they negotiated the agreement. *Id.* at 7 n.3.

3. A dispute under the settlement agreement eventually arose, and petitioners filed a new suit alleging breach of contract. Pet. App. 7-8. Respondent successfully removed the suit to federal district court and filed a counterclaim seeking a declaratory judgment that it was not obligated to pay royalties for sales made after the patent's expiration. *Id.* at 8. In a report and recommendation, the magistrate judge agreed with respondent that, under *Brulotte*, petitioners are precluded from recovering royalties for post-expiration sales. *Id.* at 53-60. The district court adopted the magistrate judge's report and recommendation, *id.* at 41, holding that, under *Brulotte*, the royalty provision was "unenforceable after the [patent's] expiration," *id.* at 37.

4. The court of appeals affirmed. Pet. App. 1-26. The court discussed this Court's decisions in *Brulotte* and *Aronson*. *Id.* at 10-18. It concluded that, taken together, those decisions establish that "a license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate." *Id.* at 18. Applying that principle, the court found that the settlement agreement here did not adequately distinguish between patent and non-patent rights. *Id.* at 18-23. Instead, "there was only one rate for all rights, and it was the same for both patent and Web Blaster rights." *Id.* at 21. The court noted that the parties could have

structured their agreement to separate the patent and non-patent royalty streams (even if they had not provided for different rates), but that they had not done so. *Id.* at 20, 21 & n.5.

SUMMARY OF ARGUMENT

A. The federal patent laws reflect a carefully designed bargain under which a patentee receives a period of exclusivity in return for providing disclosures sufficient to enable others skilled in the art to make and use his invention. Under that scheme, the patentee's exclusive rights terminate when the patent expires, at which point the public becomes free to use the required disclosures to make and enjoy the invention. The patent laws have long been understood to reflect an affirmative federal policy favoring unrestricted public access to formerly-patented inventions after a patent expires. Applying principles of implied-conflict preemption, this Court has repeatedly held that certain state-law or contractual restrictions on the manufacture or use of formerly-patented or unpatentable inventions could not be enforced because enforcement would subvert federal patent policy. The Court's decision in *Brulotte* v. *Thys*, 379 U.S. 29 (1964), therefore is not an outlier, but instead fits comfortably within a long line of precedents in which this Court has applied the same basic patent-policy insight.

B. Principles of *stare decisis* are important in every legal context, but particularly so with respect to the construction of federal statutes, where Congress is free to override this Court's decisions. Statutory *stare decisis* applies with full force where (as is typically true in implied-conflict-preemption cases) the interpretation sought to be overturned is based on inferences from the structure, history, and purposes of a larger statuto-

ry scheme rather than on a specific statutory command. Congress has amended the Patent Act several times since *Brulotte* was decided, and in 1988 it considered but ultimately declined to enact amendments that could have altered the *Brulotte* rule. And because *Brulotte* is one of many preemption decisions through which this Court has sought to vindicate the same basic patent-policy objective, overruling *Brulotte* would potentially cast doubt on the continuing vitality of a larger body of law.

C. Petitioners have not identified a special justification for overruling *Brulotte*. Their principal criticism of *Brulotte* is that it is out of step with modern antitrust principles. Petitioners are correct that, under this Court's current antitrust jurisprudence, the agreement at issue in *Brulotte* could not properly be treated as a *per se* antitrust violation. But while some language in *Brulotte* invoked economic concepts commonly used in antitrust cases, the Court did not hold or suggest that any antitrust violation had occurred. Nor have petitioners identified any subsequent decision in which a court has imposed antitrust liability based on the formation of an agreement like the one at issue here.

For substantially the same reason, petitioners are wrong in arguing that the position of the United States in this case reflects a departure from views previously expressed by the Department of Justice and the Federal Trade Commission. Those agencies simply explained that, *for antitrust enforcement purposes*, *Brulotte*-type agreements would be analyzed under the rule of reason rather than under any *per se* rule, and that some such agreements would likely be procompetitive. There is nothing anomalous about the prospect that the Patent Act, which reflects policy judgments

distinct to the patent system and which largely operates through bright-line rules rather than through case-specific comparisons of benefits and harms, will preclude enforcement of some agreements that would survive antitrust scrutiny under the rule of reason.

Petitioners have identified no sound reason to believe that *Brulotte* has caused significant real-world economic harm. Patent holders and their licensees remain free to craft and enforce agreements that defer royalty payments until after the patent expires, so long as the payment obligation is calculated based on pre-expiration conduct. To the extent that members of particular industries face distinctive obstacles to product development or efficient patent licensing, Congress can accommodate those concerns. Finally, petitioners' proposed alternative approach, under which the enforceability of *Brulotte*-type agreements would be resolved through antitrust rule-of-reason analysis and would depend substantially on the presence or absence of market power, is ill-suited to resolving questions of preemption under the patent laws.

ARGUMENT

THE COURT SHOULD NOT OVERRULE *BRULOTTE*

Fifty years ago, this Court construed the Patent Act to prohibit a patent holder from contracting to extend its right to compensation for use of a patented invention beyond the limited patent term established by Congress. See *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964). The Court does not lightly repudiate its constructions of federal statutes, particularly where (as here) Congress has amended related aspects of the statutory scheme while leaving the disputed holding undisturbed. Petitioners' criticisms of *Brulotte* do not provide the "special justification" that the Court requires to over-

rule its own statutory precedents. *Halliburton Co.* v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407 (2014) (citation omitted).

Petitioners' primary argument (Br. 1-2, 9-11, 13-18, 36-49) is that *Brulotte* reflects an obsolete understanding of antitrust principles and cannot be justified on economic grounds. But *Brulotte* is not, as petitioners suggest (Br. 1), rooted primarily in principles of "competition law." Rather, it reflects the Court's understanding that, once a patent expires, the federal patent laws reflect an affirmative policy of unrestricted public access to the formerly-patented invention. Neither that general understanding of federal patent policy, nor the specific precedents on which the *Brulotte* Court relied, have been called into question by any subsequent decision of this Court. Nor have petitioners identified any serious practical harm that warrants overturning *Brulotte*. The judgment of the court of appeals should be affirmed.

A. The Court Has Long Understood The Federal Patent Laws To Reflect An Affirmative Policy Of Free Public Access To Unpatented And Formerly-Patented Inventions

1. The patent laws serve a public purpose: to "promote the Progress of Science and useful Arts," U.S. Const. Art. I, § 8, Cl. 8. The "ultimate goal" of patent law is "to bring new designs and technologies into the public domain through disclosure." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989). To achieve that purpose, the patent system implements "a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time." *Pfaff* v. *Wells*

Elecs., Inc., 525 U.S. 55, 63 (1998). In return for the period of exclusivity that a patent affords, the applicant must actively facilitate subsequent exploitation of the patented invention by providing disclosures sufficient to enable other skilled artisans to make and use it. See *Bonito Boats*, 489 U.S. at 147, 150-151. The public's unfettered access to the technologies that have been disclosed is likewise critical. "From their inception," the federal patent laws thus have recognized "that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Id.* at 146.

Accordingly, this Court has "long held that after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law." *Bonito Boats*, 489 U.S. at 152; see *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933) ("[U]pon the expiration of that period, the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use."). The Court has further held that "[a]n unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 231 (1964).

2. Those principles have provided the foundation for a form of implied-conflict preemption, under which the Court (both before and after *Brulotte*) has repeatedly held that certain state-law or contractual restrictions on the manufacture or use of formerly-patented or unpatentable inventions could not be enforced. In *Singer Manufacturing Co.* v. *June Manufacturing Co.*, 163 U.S. 169 (1896), for example, the Court held that a state unfair-competition law was preempted by the patent

laws to the extent it would burden the public's right to enjoy a patented sewing machine after the relevant patent expired. *Id.* at 184-190. The Court found it "self evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property." *Id.* at 185.

In *Scott Paper Co.* v. *Marcalus Manufacturing Co.*, 326 U.S. 249 (1945), the Court held that the assignor of a patent was not estopped from defending a later infringement suit under the same patent on the ground that his product was a copy of an earlier, expired patent. *Id.* at 257-258. The Court explained that the anticipated public benefit when a patent expires is not merely the right "to manufacture the product or employ the process disclosed by the expired patent," but also the ability of the "consuming public at large" to "receive the benefits of the unrestricted exploitation, by others, of [the patent's] disclosures." *Id.* at 255. The Court accordingly held that a manufacturer cannot "restrict himself, by express contract * * * from using the invention of an expired patent," because even that limited restriction "would deprive * * * the consuming public of the advantage to be derived from [the manufacturer's] free use of the disclosures." *Id.* at 255-256. The Court observed that "[t]he public has invested in such free use by the grant of a monopoly to the patentee for a limited time." *Id.* at 256. The Court further explained that it "ha[d] no occasion to consider * * * whether the estoppel by patent assignment violates either the terms or policy of the laws against restraints of trade and competition." *Id.* at 258.

Two years later, in *Edward Katzinger Co.* v. *Chicago Metallic Manufacturing Co.*, 329 U.S. 394 (1947),

the Court held that federal law precluded the enforcement of a private "contract not to challenge the validity" of a patent. *Id.* at 400-402. Relying in part on *Scott Paper*, *id.* at 400, 401, the Court explained that the licensee's own agreement to the restriction could not "override congressional policy," *id.* at 402.

The Court applied the principle again in a pair of 1964 cases. In *Sears*, *supra*, the Court held that state law cannot prohibit the copying of a previously-patented invention once the patent expires. 376 U.S. at 231-233. The Court explained that "when the patent expires the monopoly created by it expires, too, and the right to make the article—including the right to make it in precisely the shape it carried when patented—passes to the public." *Id.* at 230. The Court found it "[o]bvious[]" that "a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents," because "[t]o do either would run counter to the policy of Congress of granting patents only to true inventions, and then only for a limited time." *Id.* at 231 (footnote omitted). In another case decided the same day, the Court applied *Sears* and held that state law cannot prohibit the copying of an unpatentable invention. *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). The Court explained that "[t]o forbid copying would interfere with the federal policy, found in [the Patent Clause] and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain." *Id.* at 237.

3. The Court decided *Brulotte* a few months later. The Court framed its decision as an interpretation of

the Patent Act and of "the policy and purpose of the patent laws." 379 U.S. at 31 (quoting *Scott Paper*, 326 U.S. at 256). The Court explained that the patent laws contemplate that an invention disclosed in a patent will "become public property once the 17-year period [then prescribed in 35 U.S.C. 154] expires." 379 U.S. at 31. And the Court relied on *Scott Paper*'s holding that "any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws." *Ibid.* (quoting *Scott Paper*, 326 U.S. at 256). In light of that "policy and purpose," the Court concluded that contracts for the payment of royalties based on post-expiration use of a formerly-patented invention are unenforceable because they subject "the free market visualized for the post-expiration period" to "monopoly influences that have no proper place there." *Id.* at 32-33.

4. Since *Brulotte*, the Court has continued to apply federal patent policy to preempt state laws and contract provisions whose practical effect is to expand the scope of federal patent rights. In *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), the Court held that, notwithstanding the terms of the parties' license agreement, a licensee was not required to continue paying royalties while challenging the validity of the underlying patent. The Court observed that "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery" and, "[i]f they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification." *Id.* at 670. The Court further explained that "enforcing th[e] contractual provi-

sion would undermine the strong federal policy favoring the full and free use of ideas in the public domain." *Id.* at 674.

In *Bonito Boats*, the Court held that a state unfair-competition law that prohibited the copying of certain unpatented designs was preempted by federal patent law. 489 U.S. at 144-145, 167-168. The Court explained that, "after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law." *Id.* at 152. "Where it is clear how the patent laws strike" the balance between "the desire to freely exploit the full potential of our inventive resources and the need to create an incentive to deploy those resources," the States cannot second-guess that judgment. *Ibid.*

Brulotte thus is not an outlier, but instead fits comfortably within a long line of this Court's precedents. Those decisions reflect the Court's awareness that the objectives of the federal patent laws do not cease to be implicated when a patent expires. To the contrary, it is only *after* the patent expires that the purposes of the earlier patent grant can be fully realized, since only then can the public make unrestricted use of the disclosure that was an essential *quid pro quo* for the patentee's period of exclusivity. There is consequently nothing anomalous about the conclusion that enforcement of contractual restrictions on post-expiration use of a formerly-patented invention may "stand[] as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Hines* v. *Davidowitz*, 312 U.S. 52, 67 (1941).

B. Principles Of *Stare Decisis* Apply With Particular Force To Statutory-Interpretation Decisions Such As *Brulotte*

1. "[T]his Court does not overturn its precedents lightly," because *stare decisis* "promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process." *Michigan* v. *Bay Mills Indian Community*, 134 S. Ct. 2024, 2036 (2014) (citation omitted). "The Court has said often and with great emphasis that the doctrine of *stare decisis* is of fundamental importance to the rule of law." *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 172 (1989) (citation and internal quotation marks omitted).

The Court has repeatedly explained, moreover, that principles of *stare decisis* apply with "special force in the area of statutory interpretation," because such decisions implicate "the legislative power" and "Congress remains free to alter what [the Court has] done." *Patterson*, 491 U.S. at 172-173; accord, *e.g.*, *Halliburton*, 134 S. Ct. at 2411; *Bay Mills Indian Community*, 134 S. Ct. at 2036; *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2068 (2011); *John R. Sand & Gravel Co.* v. *United States*, 552 U.S. 130, 139 (2008). When the Court construes a federal statute, its interpretation effectively becomes a part of the statutory scheme. Subsequent proposals to alter or repeal that interpretation should generally be directed to Congress, not to the Court.

2. *Brulotte* reflects the Court's interpretation of the patent laws—specifically, of the legal effect of the expiration of the patent term established by the Patent Act. After observing that the Constitution grants Congress the power to "secure 'for limited times' to inventors 'the

exclusive right' to their discoveries," the *Brulotte* Court explained that "Congress exercised that power by 35 U.S.C. § 154," which at that time provided for a patent term of 17 years. 379 U.S. at 30. The Court emphasized that, although the patentee may convey to others his exclusive rights in the patented invention, those rights "become public property once the 17-year period expires." *Id.* at 31. The Court therefore concluded that "'whatever the legal device employed' a projection of the patent monopoly after the patent expires is not enforceable." *Id.* at 32 (quoting *Scott Paper*, 326 U.S. at 256).

Petitioners contend (Br. 49-50, 52) that principles of *stare decisis* apply with reduced force because *Brulotte* is not rooted in any specific statutory text. That argument has no basis in this Court's precedents. In *Halliburton*, for instance, the Court applied *stare decisis* to a presumption that it described as "a substantive doctrine of federal securities-fraud law," even though that presumption was "a judicially created doctrine designed to implement a judicially created cause of action." 134 S. Ct. at 2411 (citation omitted). In the patent context, the Court has recognized that "statutory *stare decisis*" applies to judicially recognized exceptions to patent eligibility, even though those exceptions "are not required by the statutory text." *Bilski* v. *Kappos*, 561 U.S. 593, 601-602 (2010). The *Brulotte* Court's reliance on the structure and purposes of the patent laws as a whole, rather than on any discrete Patent Act provision, is also characteristic of implied-conflict-preemption analysis. Petitioners cite no decision of this Court suggesting that precedents determining the preemptive scope of federal statutes are entitled to reduced *stare decisis* effect.

There is likewise no merit to petitioners' contention (Br. 50-51) that *stare decisis* concerns are diminished here because the limited nature of patent terms has a constitutional foundation. Although the Court in *Brulotte* identified the constitutional source of Congress's authority to establish a patent system, see 379 U.S. at 30, the Court did not suggest that the specific rule it announced was constitutionally compelled. Where (as is clearly the case here) a decision of this Court concerns the legal effect of a federal statute and is subject to supersession by Congress, "[c]onsiderations of *stare decisis* have special force." *Patterson*, 491 U.S. at 172.[3]

3. *Stare decisis* principles carry particular force here because *Brulotte* has survived repeated amend-

---

[3] The antitrust decisions invoked by petitioners (Br. 55-56), in which the Court has replaced various *per se* rules with rule-of-reason analysis, are distinguishable because "the Court has treated the Sherman Act as a common-law statute." *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 899 (2007); see *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997). Petitioners suggest (Br. 56) that the doctrine of patent misuse should be equally susceptible to judicial revision because it has common-law origins. Both before and after *Brulotte*, however, Congress has imposed limits on the doctrine by providing that "[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of" five enumerated acts. 35 U.S.C. 271(d); see 1 Herbert Hovenkamp et al., *IP and Antitrust* §§ 3.2a-3.2b, at 3-6 to 3-8 (2d ed. 2015) (describing 1952 and 1988 statutes). Section 271(d) applies only to patent holders who are "otherwise entitled to relief for infringement or contributory infringement" (a category into which petitioners do not fall), and none of the enumerated acts involves an attempt to place post-expiration restrictions on the use of a previously-patented invention. 35 U.S.C. 271(d).

ments to related provisions of the Patent Act over the last five decades.

Section 154 itself has been amended several times since *Brulotte* was decided—most significantly in 1994, when Congress changed the basic length of a patent term. See Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532(a), 108 Stat. 4983-4985; see also pp. 2-3, *supra* (describing that change). More generally, Congress recently engaged in a widescale reexamination and revision of the patent laws, culminating in the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). Yet Congress has not displaced the *Brulotte* Court's judgment that the patent laws reflect an affirmative policy of terminating a patentee's right to collect royalties for use of an invention after the expiration of the patent term. Such "long congressional acquiescence * * * enhance[s] even the usual precedential force" accorded to the Court's "interpretations of statutes." *Watson* v. *United States*, 552 U.S. 74, 82-83 (2007) (citation and internal quotation marks omitted).

Congress has considered, but failed to enact, proposals that could have altered the *Brulotte* rule. In November 1988, Congress reformed the patent-misuse defense. See Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676 (adding 35 U.S.C. 271(d)(4) and (5)). Although petitioners portray (Br. 42-43) that amendment as implicitly casting doubt on *Brulotte*'s soundness, other bills pending at the same time would have created an express connection between patent misuse and antitrust law akin to the one petitioners now request, and Congress heard testimony from both critics and supporters of *Brulotte*. See Resp. Br. 22-25;

id. at 23 (quoting statement from Rep. Kastenmeier explaining intention to modify *Brulotte*).

One bill that passed the Senate in October 1988 would have provided that no patent owner would be guilty of misuse or "illegal extension of the patent right by reason of his or her licensing practices * * * unless such practices * * * violate the antitrust laws." S. 438, 100th Cong., 2d Sess. § 201(3). A previous Senate bill would also have limited patent misuse to violations of the antitrust laws. S. 1200, 100th Cong., 1st Sess. tit. II (1987). As the then-Assistant Commissioner for Patents explained, that bill would have "ma[de] an antitrust violation a requirement generally for a holding of misuse and applie[d] to all licensing practices or actions or inactions relating to the patent." *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary*, 100th Cong., 2d Sess. 37 (1988). A House committee considered yet another bill, H.R. 4086, that would have defined patent misuse in relevant part as "unreasonably entering into a royalty agreement that provides for payments beyond the expiration of the term of a patent, except when the parties have mutually agreed to such payments after the issuance of the patent." *Id.* at 3-4.

Thus, even as it imposed various limits on patent-misuse principles in 1988, Congress ultimately declined to enact any of the proposals related to post-expiration royalties. That choice warrants this Court's respect. Cf. *Barnhart* v. *Peabody Coal Co.*, 537 U.S. 149, 168 (2003) ("We do not read the enumeration of one case to exclude another unless it is fair to suppose that Con-

gress considered the unnamed possibility and meant to say no to it.").

4. As explained above, *Brulotte* is one in a series of this Court's decisions prohibiting the enforcement of state-law or contractual provisions that would inappropriately restrict the public's access to unpatented or formerly-patented inventions. Petitioners do not make clear whether they regard *Brulotte* as simply an unsound application of the precedents (*e.g.*, *Scott Paper*) on which the Court relied, or whether they believe those precedents to be deficient as well. But the existence of a robust body of decisions that reflect a single overarching patent-policy insight gives added force to the concern that repudiating one statutory precedent "would inevitably reflect a willingness to reconsider others," thus "threaten[ing] to substitute disruption, confusion, and uncertainty for necessary legal stability." *John R. Sand & Gravel*, 552 U.S. at 139.

C. Petitioners Have Not Identified A Special Justification For Overruling *Brulotte*

"Before overturning a long-settled precedent," the Court "require[s] 'special justification,' not just an argument that the precedent was wrongly decided." *Halliburton*, 134 S. Ct. at 2407 (quoting *Dickerson* v. *United States*, 530 U.S. 428, 443 (2000)). Petitioners primarily argue (Br. 1-2, 9-11, 13-18, 36-49) that *Brulotte* reflects a judge-made antitrust rule that is based on outdated economic analysis.

Petitioners are correct that, under this Court's current antitrust jurisprudence, agreements of the sort at issue in *Brulotte* could not properly be treated as *per se* violations of the antitrust laws. The *Brulotte* Court did not hold or suggest, however, that any antitrust violation had occurred. Rather, it held that an agreement to

pay royalties based on post-expiration use of a previously-patented invention was unenforceable because enforcement would subvert the federal *patent* policy of unrestricted public access to inventions for which a patent has expired. None of this Court's subsequent decisions casts doubt on the continued vitality of that general patent policy. Nor has this Court overruled any of the pre- and post-*Brulotte* decisions (see pp. 12-16, *supra*) applying that policy to a diverse array of circumstances. The intervening antitrust-law developments on which petitioners rely therefore provide no "special justification" for repudiating *Brulotte*.

1. Antitrust considerations do not justify overruling **Brulotte***'s rule of patent policy*

a. Petitioners—along with many of the commentators and lower-court decisions that they cite—have treated *Brulotte* as an antitrust rule and have criticized it largely on antitrust grounds. Petitioners contend that "economic considerations" and "antitrust policy" do not justify *Brulotte*'s *per se* rule, and that the Court therefore should use "a flexible rule of reason analysis." Br. 36, 41, 45 (capitalization modified). Under petitioners' proposed approach (*e.g.*, Br. 47, 49), proof that the patentee possessed "market power" would be a necessary (though not a sufficient) condition for refusing to enforce an agreement to pay royalties based on post-expiration use.

Some aspects of *Brulotte*'s reasoning invoke economic concepts commonly used in antitrust cases. The *Brulotte* Court analogized license agreements extending beyond the patent term to "an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones." 379 U.S. at 33. The Court's statement that

license agreements extending beyond the term of the patent are "unlawful *per se*" (*id.* at 32) likewise evokes a phrase that is often associated with antitrust law.

Since *Brulotte* was decided, antitrust law has in many respects shifted away from *per se* rules toward rule-of-reason analysis. See, *e.g.*, *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 886-887 (2007); *State Oil Co.* v. *Khan*, 522 U.S. 3, 17, 22 (1997); *Continental T.V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36, 57-59 (1977). Under that approach, *per se* condemnation of a particular type of restraint is appropriate "only if courts can predict with confidence that [the restraint] would be invalidated in all or almost all instances under the rule of reason." *Leegin*, 551 U.S. at 886-887. Federal agencies enforcing the antitrust laws therefore generally analyze "restraints in intellectual property licensing arrangements" under "the rule of reason." U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 3.4, at 16 (Apr. 6, 1995), www.justice.gov/atr/public/guidelines/0558.pdf.

Brulotte was never intended, however, to establish a rule of antitrust law. Petitioners still have not identified any decision that has imposed antitrust *liability* (*e.g.*, treble damages or criminal penalties) on a party who entered into an agreement of the sort at issue in *Brulotte*. Cf. U.S. Cert. Amicus Br. 12, 15 (noting the absence of such cases). Rather, in this case as in *Brulotte* itself, the consequence of applying the rule is simply that an agreement to pay royalties for post-expiration use of a patented invention cannot be enforced in court. *Brulotte*'s rule is thus one of contract enforceability in light of "the policy and purpose of the

patent laws," 379 U.S. at 31 (quoting *Scott Paper*, 326 U.S. at 256), not one of antitrust liability.[4]

b. Despite petitioners' repeated assertions, no agency of the United States has previously "called on this Court to reconsider [*Brulotte*]." Pet. Br. 1; see *id.* at i, 13, 16, 25, 56. Petitioners invoke a 2007 joint report of the Department of Justice and the Federal Trade Commission, which explained that, when conducting an *antitrust* review of agreements like the one at issue in *Brulotte*, those agencies would generally apply a rule-of-reason analysis rather than a *per se* rule. U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 122 (Apr. 2007) (DOJ/FTC Report), www.justice.gov/atr/public/hearings/ip/222655.pdf. That report also stated that some agreements that *Brulotte* renders unen-

---

[4] The rule announced in *Brulotte* is limited in another respect as well. As Congress recognized in enacting Section 271(d), a finding of patent misuse sometimes has the effect of denying relief to a patent owner who is "otherwise entitled to relief for infringement or contributory infringement of a patent." 35 U.S.C. 271(d); see *Morton Salt* v. *G.S. Suppiger Co.*, 314 U.S. 488, 492-494 (1942). Under that approach, a licensee under a *Brulotte*-type agreement could cease paying royalties *while the patent remained in effect*, and could defend against any infringement suit on the ground that the patentee had misused its patent by extracting a promise to pay royalties on post-expiration sales. But neither the *Brulotte* Court itself, nor the court below, nor any other court of which we are aware has applied *Brulotte* in that manner. Rather, although the licensees in *Brulotte* had "refused to make royalty payments accruing both before and after the expiration of the patents," the Court held the royalty provisions unenforceable only with respect to royalties "which accrued after the last of the patents incorporated into the machines had expired." 379 U.S. at 30; see Resp. Br. 17.

forceable would likely have procompetitive effects. See *id.* at 12, 122. But the report was addressed to antitrust law and expressed no view about the soundness of the *Brulotte* rule as a matter of *patent* law. Nor did it engage in any analysis of the considerations that would be necessary to overcome *stare decisis*, much less make any recommendation that *Brulotte* be reconsidered or overruled by this Court.

If the Justice Department and the FTC had understood *Brulotte* to establish a *per se* rule of antitrust liability, their report presumably would have contained language to the effect that, although patent-licensing agreements are generally analyzed for antitrust purposes under the rule of reason, binding Supreme Court precedent requires courts to analyze *Brulotte*-type agreements in a different manner. But the report did not suggest that *Brulotte* had impaired the courts' ability to enforce the competition laws in accordance with modern antitrust principles. Rather, the report recognized that *Brulotte* "did not involve an antitrust claim," and that "[p]atent misuse is said to be broader than antitrust liability as it extends to 'some sorts of conduct antitrust law would not reach.'" DOJ/FTC Report 117 & n.12 (citation omitted). The position that the United States has taken in this Court therefore does not reflect any change in position about whether *Brulotte* is good patent law or whether it should be overruled.[5]

---

[5] Petitioners also cite (Br. 16) congressional testimony by the then-Assistant Commissioner of Patents in 1988 that *Brulotte* was unsound. Because that testimony was offered in support of amendments to the Patent Act that could have *legislatively* overruled *Brulotte*, the Assistant Commissioner did not need to address *stare decisis* considerations.

c. The DOJ/FTC Report expressed the view that some *Brulotte*-type agreements would likely have pro-competitive effects. See DOJ/FTC Report 12, 122. Because *per se* condemnation under the antitrust laws is reserved for types of restraints that "would be invalidated in all or almost all instances under the rule of reason," *Leegin*, 551 U.S. at 886-887, the report's assessment logically implies that *Brulotte*-type agreements should not be treated as *per se* antitrust violations. In the antitrust context, modern rule-of-reason analysis entails a case-specific determination about whether a particular arrangement is, on balance, pro- or anticompetitive, in light of "all of the circumstances," including "[w]hether the businesses involved have market power." *Id.* at 885-886 (citation omitted).

The patent laws, by contrast, operate largely through bright-line rules that are designed to promote the effective implementation of the patent system as a whole. For instance, Congress selected a term of patent protection—now, generally 20 years from the date of application, 35 U.S.C. 154(a)(2)—that it believed was sufficient to encourage innovation without unduly restricting public access to patented inventions. Congress has enacted limited exceptions to the 20-year period. See 35 U.S.C. 154(b), 156. Apart from those specific exceptions, however, the statutory scheme does not contemplate case-specific inquiries (either by the PTO or by a court) into whether a period of exclusivity longer or shorter than 20 years would strike a better balance between competing interests with respect to particular inventions or categories of inventions.

By the same token, the determination whether particular conduct unlawfully infringes a patent does not depend on any case-specific comparison between the

costs and benefits to the public of allowing the conduct to continue. Although the term of exclusivity granted by a patent is generally intended to promote innovation and competition, a patent holder "has no obligation either to use [his invention] or to grant its use to others" while the patent remains in effect. *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 432 (1945); 35 U.S.C. 271(d)(4) (specifying that "refus[ing] to license or use any rights to the patent" does not constitute patent misuse). Even if a particular patentee refuses either to practice his patent or to authorize others to do so, a court cannot invoke anticipated benefits to the public as a ground for treating as lawful another party's unauthorized production or sale of the patented invention.

This Court has long construed the patent laws as reflecting an affirmative policy of unrestricted public access to unpatentable inventions and inventions for which a patent has expired. *Brulotte* is simply one of many decisions in which the Court has invalidated state-law or contractual provisions that would prevent the full accomplishment of that federal patent-policy objective. *Brulotte* is consistent with those decisions, and with the patent laws' general preference for bright-line rules rather than case-specific balancing of equities. The fact that some *Brulotte*-type agreements would be viewed as procompetitive under the antitrust rule of reason therefore does not suggest that *Brulotte* reflects an erroneous understanding of the Patent Act.

d. Petitioners attempt (Br. 26) to dismiss the line of decisions discussed above (see pp. 12-16, *supra*) as involving "attempts to extend the duration of patent rights *against the public at large*." They contend (Pet. Br. 18-28) that royalties based on respondent's post-

expiration sales do not offend federal patent policy because persons other than respondent can now make unrestricted use of the formerly-patented invention. Petitioners are correct that a hypothetical state law requiring *all* members of the public to pay royalties for post-expiration uses of a previously-patented invention would *more substantially* impede the effectuation of federal patent policy than would enforcement of a single licensee's contractual agreement to do so. *Brulotte* is not the only case, however, in which the Court has construed the federal patent laws to preclude the enforcement of private contracts.

In *Scott Paper*, for example, the Court observed that the "aim of the patent laws" includes "not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures." 326 U.S. at 255. The Court further explained that, "[i]f a manufacturer or user could restrict himself * * * from using the invention of an expired patent, he would deprive himself and the consuming public of the advantage to be derived from his free use of the disclosures." *Id.* at 255-256. The Court thus recognized that the contractual extension of patent rights against the licensee himself may prevent the full achievement of the patent laws' objectives. Similarly in *Lear*, the Court explained that "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery," and "[i]f they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justifi-

cation." 395 U.S. at 670. *Brulotte* reflects another application of the same practical judgment.

2. Petitioners identify no sound reason to believe that the rule announced in* Brulotte *has caused significant real-world economic harm

a. The rule established by *Brulotte* is narrow and clear: An agreement is unenforceable only to the extent that it requires royalties based on post-expiration conduct involving a previously-patented invention. 379 U.S. at 31. *Brulotte* specifically exempted from its prohibition the practice of "deferred payments for use during the pre-expiration period." *Ibid.*; see DOJ/FTC Report 117 (noting that "courts tend to apply [*Brulotte*] narrowly" and that its "holding reaches only agreements in which royalties actually *accrue* on post-expiration use").[6] The two sorts of agreement have significantly different implications for federal patent policy. Enforcement of a contractual agreement to defer payment of accrued royalties until after the patent expires creates no meaningful economic disincentive to post-expiration production or sale of the previously-patented invention. But where (as in *Brulotte* and in this case) the amount of royalties owed depends on the volume of post-expiration use or sales, enforcement would both create such a disincentive and increase the licensee's marginal costs, thereby preventing "the consuming public at large" from "receiv[ing]

---

[6] Petitioners acknowledge (Br. 35) that *Brulotte* prohibits only "accrual postponement" and not "payment postponement." Many of *Brulotte*'s critics, however, have mistakenly lamented contracting parties' supposed inability "to amortize royalty payments over longer periods than the remaining life of the patent." 1 Hovenkamp et al., *IP and Antitrust* § 23.2b, at 23-15; accord, *e.g.*, Association of the Bar of the City of N.Y. Amicus Br. 11.

the benefits of the unrestricted exploitation, by others, of [the patent's] disclosures." *Scott Paper*, 326 U.S. at 255; see Resp. Br. 46.

Subsequent decisions confirm the narrowness of *Brulotte*'s rule. In *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969), the Court described *Brulotte* as "[r]ecognizing that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time." *Id.* at 136. In *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Court distinguished *Brulotte* and upheld an agreement, made while a patent application was pending, in which the applicant's counter-party agreed to pay a lower royalty if the patent was not granted. *Id.* at 264-265. The Court explained that the lower royalty, "far from being negotiated 'with the leverage' of a patent, rested on the contingency that no patent would issue within five years." *Id.* at 265 (citation omitted).

b. Petitioners and some of their amici identify pharmaceutical development as an area that would benefit from an ability to use royalties to share the risks of commercial success or failure over a long term. See Pet. Br. 32 (quoting Memorial Sloan-Kettering Cancer Ctr. Cert. Amicus Br. 12-13). But Congress has already demonstrated its ability (and willingness) to accommodate the distinctive needs of pharmaceutical companies without requiring case-by-case determinations about market power. Congress has enacted a safe harbor from patent-infringement liability for certain "uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veteri-

nary biological products." 35 U.S.C. 271(e)(1). As a result, in a situation like that posited by amici—in which a potentially useful new application of a patented drug or device is discovered near the end of the patent term—no patent license may be required, because the activities needed to develop the new application will ordinarily be exempt from patent-infringement liability under Section 271(e)(1). Congress has also extended the term for certain patents related to products regulated by the Food and Drug Administration "by the time equal to the regulatory review period for the approved product which * * * occurs after the date the patent is issued" (with certain exceptions). 35 U.S.C. 156(c).

c. Finally, the alternative approach that petitioners advocate is ill-suited to determining the enforceability, under the patent laws, of royalty agreements like the one at issue here. Petitioners argue that *Brulotte*-type agreements should be (1) analyzed under the antitrust rule of reason and (2) treated as valid and enforceable unless the patentee is shown to have market power. But if a particular *Brulotte*-type agreement were shown to violate the antitrust laws, it would be unenforceable on that ground alone. Petitioners' proposed alternative approach would thus give no independent weight to the distinct congressional policy choices reflected in the patent laws.

Except under narrowly-defined circumstances (see 35 U.S.C. 271(d)(5)), moreover, the rights and obligations of patentees under the Patent Act do not depend on the presence or absence of market power. Indeed, the contrast between the significant role that market power often plays in modern antitrust analysis, and its virtual irrelevance to application of the patent laws,

simply highlights the anomalous nature of petitioners' proposal to resolve questions of Patent Act preemption by reference to antitrust principles. Under the circumstances, petitioners have not provided the "special justification" (*Halliburton*, 134 S. Ct. at 2407 (citation omitted)) necessary for this Court to take the extraordinary step of overruling one of its statutory-interpretation decisions—much less for it to do so by replacing *Brulotte*'s clear and narrow 50-year-old rule with one imported from a different statutory context.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

DONALD B. VERRILLI, JR.
Solicitor General
BENJAMIN C. MIZER
Acting Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
CURTIS E. GANNON
Assistant to the Solicitor General
MARK R. FREEMAN
KATHERINE TWOMEY ALLEN
Attorneys

MARCH 2015

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
FEB 4 2015
OFFICE OF THE CLERK
SUPREME COURT, U.S.

No. 13-720

IN THE
Supreme Court of the United States

STEPHEN KIMBLE, ET AL.,

Petitioners,

v.

MARVEL ENTERPRISES, INC.

Respondent.

On Writ Of Certiorari To The
United States Court Of Appeals
For The Ninth Circuit

BRIEF OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF NEITHER PARTY

SHARON A. ISRAEL
PRESIDENT
AMERICAN
INTELLECTUAL
PROPERTY LAW
ASSOCIATION
241 18th Street South
Suite 700
Arlington, VA 22202
(703) 415-0780

PAUL M. SMITH
Counsel of Record
JOSHUA M. SEGAL
JENNER & BLOCK LLP
1099 New York Ave. NW
Suite 900
Washington, D.C. 20001-4412
(202) 639-6000
psmith@jenner.com

PAUL D. MARGOLIS
DANIEL T. FENSKE
JENNER & BLOCK LLP
353 N. Clark Street
Chicago, IL 60654-3456
(312) 222-9350

Counsel for Amicus Curiae

TABLE OF CONTENTS

TABLE OF CONTENTS i

TABLE OF AUTHORITIES ii

INTEREST OF AMICUS CURIAE 1

SUMMARY OF ARGUMENT 2

ARGUMENT 4

I. *Brulotte* Is A Narrow Rule That Furthers Congressionally-Mandated Patent Policy And Is Deeply Rooted In Over A Century Of Case Law. 4

A. *Brulotte* Embodies Important Principles of Patent Policy That Are Independent Of Antitrust Concerns. 4

B. *Brulotte* Is Part Of A Long Line Of Cases Curtailing Attempts To Expand Patent Rights By Contract. 13

II. *Brulotte* Is A Clear, Narrow Rule That Allows Parties Considerable Flexibility In Structuring Royalty Payments. 19

CONCLUSION 26

TABLE OF AUTHORITIES

CASES

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979) 22, 26

Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950), *overruled in part by Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) 15, 16

Bob Jones University v. United States, 461 U.S. 574 (1983) 17

Boggild v. Kenner Products, 776 F.2d 1315 (6th Cir. 1985) 6, 21, 25

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) 7, 8, 12

Brulotte v. Thys Co., 379 U.S. 29 (1964) ..... *passim*

Carbice Corp. of America v. American Patents Development Corp., 283 U.S. 27 (1931) 15

Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972), *overruled by statute as recognized in Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007) 19

Denver Rockets v. All-Pro Management, Inc., 325 F. Supp. 1049 (C.D. Cal. 1971) 10, 11

Flood v. Kuhn, 407 U.S. 258 (1972) 17

Halliburton Co. v. Erica P. John Fund, Inc., 134 S. Ct. 2398 (2014) 18

Hull v. Brunswick Corp., 704 F.2d 1195 (10th Cir. 1983) 22, 23

J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred International, Inc., 534 U.S. 124 (2001) 9

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) 21, 26

Leegin Creative Leather Products, Inc. v. PSKS, Inc., 551 U.S. 877 (2007) 9, 18

Leitch Manufacturing Co. v. Barber Co., 302 U.S. 458 (1938) 15

Meehan v. PPG Industries, Inc., 802 F.2d 881 (7th Cir. 1986) 21, 25

Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661 (1944) 15

Motion Picture Patents Co. v. Universal Film Manufacturing Co., 243 U.S. 502 (1917) 14

Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365 (11th Cir. 1983) 25

Pope Manufacturing Co. v. Gormully, 144 U.S. 224 (1892) 14

Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806 (1945) 15

Scheiber v. Dolby Laboratories, Inc., 293 F.3d 1014 (7th Cir. 2002) 24, 26

Scott Paper Co. v. Marcalus Manufacturing Co., 326 U.S. 249 (1945) 8, 12

State Oil Co. v. Khan, 522 U.S. 3 (1997) 18

Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) 12

United States v. Topco Associates, Inc., 405 U.S. 596 (1972) 10, 11

University of Texas Southwest Medical Center v. Nassar, 133 S. Ct. 2517 (2013) 17

USM Corp. v. SPS Technologies, Inc., 694 F.2d 505 (7th Cir. 1982) 24

Zila, Inc. v. Tinnell, 502 F.3d 1014 (9th Cir. 2007) 22, 23

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969) 6, 15, 16, 20

CONSTITUTIONAL PROVISIONS AND STATUTES

U.S. Const. art. I, § 8, cl. 8 7

35 U.S.C. § 154(a)(1) 7

35 U.S.C. § 154(a)(2) 7

Act of Nov. 19, 1988, Pub. L. No. 100-703, tit. II, § 201, 102 Stat. 4674, 4676 16

LEGISLATIVE MATERIALS

134 Cong. Rec. 32,294-95 n.3 (1988) 13

134 Cong. Rec. 28,008 (1988) 11

Intellectual Property Antitrust Protection Act of 1988, S. 438, 100th Cong. § 201(3) (1988) 17

Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the H. Comm. on the Judiciary, 100th Cong. (1988) 8, 10, 11, 13, 17

OTHER AUTHORITIES

I Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 100 (3d ed. 2006) 9

Robert H. Bork, *The Antitrust Paradox* (1978) 9

Thomas F. Cotter, *Misuse*, 44 Hous. L. Rev. 901 (2007) 24

Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003) 11, 12

1 Herbert Hovenkamp et al., *IP and Antitrust* § 23.2b (2d ed. 2015) 24

2 John W. Schlicher, *Patent Law, Legal and Economic Principles* § 11:27 (2d ed. 2012) 24

Harold See & Frank M. Caprio, *The Trouble with* Brulotte*: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813 (1990) 24

United States Department of Justice & Federal Trade Commission, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007) 6, 20

INTEREST OF AMICUS CURIAE[1]

The American Intellectual Property Law Association ("AIPLA") is a voluntary bar association of approximately 15,000 members engaged in private and corporate practice, in government service, and in the academic community. AIPLA's members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. They represent both owners and users of intellectual property. AIPLA's mission includes providing courts with objective analysis to promote an intellectual-property system that stimulates and rewards invention while balancing the

---

[1] In accordance with Supreme Court Rule 37.6, amicus curiae states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the amicus curiae and its counsel. Specifically, after reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (ii) no representative of any party to this litigation participated in the authorship of this brief, and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

public's interest in healthy competition, reasonable costs, and basic fairness.[2]

AIPLA has no interest in any party to this litigation or stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the law affecting intellectual property.

SUMMARY OF ARGUMENT

In *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964), this Court held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se" where such payments are not deferred payments for uses during the patent term. *Brulotte*'s holding is narrow and rests on the Court's interpretation of the Patent Act and prior cases applying that statute. Indeed, *Brulotte* is only one of many cases from this Court holding that, as a matter of patent law, a patent holder may not attempt to retain patent rights after the patent term ends. In the fifty years since *Brulotte* was decided, Congress has repeatedly amended the Patent Act—and has rejected proposals to statutorily overrule *Brulotte*.

In asking this Court to overrule *Brulotte* and replace it with a vague "rule of reason" standard, petitioners portray the decision as an antitrust case. They do so to invoke both (1) this Court's decisions

---

[2] In accordance with Supreme Court Rule 37.3(a), the parties have consented to the filing of this amicus brief in support of neither party.

characterizing the Sherman Act as a "common law statute" under which *stare decisis* concerns are less important than in a typical case of statutory interpretation; and (2) academic and judicial criticism of the rule from an antitrust perspective.

But *Brulotte* is not an antitrust decision. Rather, it reflects this Court's repeated interpretation of the Patent Act and the policy goals it embodies. Recognizing *Brulotte* as grounded in patent policy leads to two conclusions. *First*, *stare decisis* concerns are at their zenith here, given that *Brulotte* is a decision in an area of law in which this Court has recognized that Congress has primary authority. *Second*, independent patent policy considerations justify *Brulotte* regardless of how post-expiration royalties might be analyzed under antitrust law.

Brulotte has many virtues, moreover. Its clear, *per se* rule facilitates patent licensing by reducing uncertainty over which royalty practices are permitted and which are not. *Brulotte* is critical to limiting a patent holder's ability to extend its exclusive rights beyond the congressionally-mandated patent term, thus freeing up licensees to utilize the no-longer-patented invention without incurring additional costs. And because *Brulotte* applies only to one specific licensing practice—post-expiration royalties *based on post-expiration use*—*Brulotte* allows contracting parties to adopt nearly all of the licensing practices that those attacking *Brulotte* champion as the reason to overrule it. This Court should reaffirm *Brulotte*'s narrow holding.

ARGUMENT

I. *Brulotte* Is A Narrow Rule That Furthers Congressionally-Mandated Patent Policy And Is Deeply Rooted In Over A Century Of Case Law.

The *Brulotte* rule rests on patent policy. It is but one application of this Court's long-settled interpretation of the Patent Act: a licensing arrangement is unenforceable to the extent that it extends rights under the patent beyond the limits that Congress has prescribed. And although critics of *Brulotte* challenge it on antitrust grounds, *Brulotte* is not an antitrust decision at all.

A. *Brulotte* Embodies Important Principles of Patent Policy That Are Independent Of Antitrust Concerns.

1. *Brulotte* addressed a licensing agreement that required the licensee to pay either a royalty based on sales during each year or a flat annual fee for use of the patented machine even after the patent expired. 379 U.S. at 29. Construing the annual license payments as "royalties for use of the machine during that year," *id.* at 31, this Court held unenforceable the licensing provision of the agreement as to post-expiration use, concluding that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se." *Id.* at 32.

The Court's decision was based on federal patent policy. Under the Patent Act, a patented invention

"become[s] public property once the 17-year period expires." *Id.* at 31. *Brulotte* relied on prior cases holding that "'whatever the legal device employed' a projection of the patent monopoly after the patent expires is not enforceable." *Id.* (quoting *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)). Applying the rule that any attempt to continue to enjoy the benefits of congressionally-conferred patent rights after patent expiration was unenforceable, *Brulotte* held that because the licenses at issue "dr[ew] no line between the term of the patent and the post-expiration period," they were "on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period"—and therefore were unenforceable after the patent's term. *Id.* at 32.

In so holding, however, this Court was careful to limit its decision to post-expiration royalties tied directly to uses of the invention after the patent had expired. The Court emphasized that the "royalty payments due for the post-expiration period are by their terms for use during that period, *and are not deferred payments for use during the pre-expiration period.*" *Id.* at 31 (emphasis added). "[T]he royalties exacted were the same for the post-expiration period as they were for the period of the patent," *id.*, the Court observed—a fact defeating any argument that post-expiration royalties were compensation for something other than use of the patent during that period.

Later decisions of this Court have made clear that the *Brulotte* rule is limited to royalties for post-

expiration use. In *Zenith Radio Corp. v. Hazeltine Research, Inc.*, for example, this Court characterized *Brulotte* to mean that a "patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time . . . ." 395 U.S. 100, 136 (1969). Courts of appeals also have recognized that *Brulotte*, properly construed, does not preclude post-expiration royalties that are mere deferred payments for pre-expiration use. *See, e.g., Boggild v. Kenner Prods.*, 776 F.2d 1315, 1318 (6th Cir. 1985). Further, both the Justice Department's Antitrust Division and the Federal Trade Commission have recognized that *Brulotte*'s "holding reaches only agreements in which royalties actually *accrue* on post-expiration use." U.S. Dept. of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 117 (2007) ("DOJ/FTC Report"). *Brulotte* thus does not condemn all royalties paid after expiration of a patent.

2. Many of the arguments for overruling *Brulotte* portray it as an antiquated decision overrun by this Court's more recent antitrust rulings. *See, e.g.*, Pet. 2, 22-30. These arguments rest on the premise that *Brulotte* implements primarily antitrust, not patent, policy. But *Brulotte* is not an antitrust decision at all. Rather, as the Solicitor General has explained, *Brulotte* "reflects the Court's interpretation of the Patent Act and the policies of the federal patent laws, which the Court has long construed to promote the public's

unfettered access to patented inventions after the expiration of the patent." U.S. Cert. Br. 7-8.

The broad principle that patent rights are time-limited has its roots in the Constitution. The Constitution grants Congress the power to establish a patent system that "secur[es] *for limited Times* to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8 (emphasis added). The Constitution thus "reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

Congress has implemented that balance in the Patent Act. The Act gives a patent holder the right to "exclude others from making, using, offering for sale, or selling the invention . . . ." 35 U.S.C. § 154(a)(1). But that right is strictly time-limited: it lasts only for "20 years from the date on which the application for the patent was filed . . . ." *Id.* § 154(a)(2).[3]

Brulotte, in turn, is a straightforward application of the time limit that Congress has placed on patent rights. *Brulotte* held the agreements at issue unenforceable simply because they were an "attempt to

---

[3] When this Court decided *Brulotte*, the congressionally mandated term of exclusivity was 17 years from the date the patent issued. *See Brulotte*, 379 U.S. at 31.

exact the same terms and conditions for the period after the patents have expired as they d[id] for the monopoly period." 379 U.S. at 32. In thus limiting a patent holder's ability to earn royalties after the patent has expired, *Brulotte* "serve[s] a special function within the patent system" that is "distinct from antitrust law." *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the H. Comm. on the Judiciary*, 100th Cong. 172 (1988) ("1988 House Hearings") (statement of Prof. Robert P. Merges).

Under federal patent law, the public can freely use a patented invention after the patent expires. *See Bonito Boats*, 489 U.S. at 152 (after expiration, patented invention "passes to the free use of the public as a matter of federal law"); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945) (same). But a licensing agreement that requires payment of patent royalties for post-expiration uses circumvents that congressionally-mandated rule, requiring the licensee to continue to pay for use or to invent around the patent. That is not the structure Congress enacted. In addition, *Brulotte* embodies the *quid pro quo* for which Congress provided in the Patent Act: the patent holder receives exclusive rights for a limited time in exchange for public disclosure, adding to the public's knowledge base so that the public may freely practice the invention at the end of the patent's term. *See J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124, 142 (2001) ("The disclosure required by the Patent Act is 'the *quid pro quo* of the right to exclude.'") (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470,

484 (1974)). Royalties based on post-expiration use of the patented invention undermine that *quid pro quo*.

3. The fact that *Brulotte* is based on patent policy rather than antitrust policy is not mere semantics. Although the policy goals of antitrust and patent law intersect, patent policy addresses concerns that antitrust law does not. Those differences justify the narrow rule of *Brulotte*.

"[T]he principal objective of antitrust policy is to maximize consumer welfare by encouraging firms to behave competitively." I Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 100, at 4 (3d ed. 2006). Antitrust law is thus focused on the "misallocation of resources due to monopoly power," Robert H. Bork, *The Antitrust* Paradox 7 (1978), primarily caused by anticompetitive conduct that allows market participants "to restrict competition and decrease output." *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886 (2007) (quotation omitted).

Patent law has other concerns. "[A] central policy of the patent law is to limit the scope of a patent's claims to the legal and equitable boundaries of the patentee's invention; activities that do not 'substantially lessen competition' in the antitrust sense may still run afoul of this important policy." 1988 House Hearings at 172 (statement of Prof. Robert P. Merges). *Brulotte* advances these independent patent interests in at least three distinct ways.

First, *Brulotte*'s rule of *per se* unenforceability is clear and easy to understand. It thus facilitates the

licensing of patents. "Without . . . per se rules, businessmen would be left with little to aid them in predicting in any particular case what courts will find to be legal and illegal[.]" *United States v. Topco Assocs., Inc.*, 405 U.S. 596, 609 n.10 (1972). *Per se* rules are especially important to the regulation of contracts, where parties need a clear understanding of what provisions they may include and whether they will be enforced. *Brulotte* thus provides much-needed clarity to licensing parties.

A rule of reason approach, by contrast, would sacrifice this clarity on an issue rooted in fundamental patent policy, and replace it with the complex economic analysis that arises in policing the overreaching of patents that are in force. Such an approach "is not nearly as useful to practitioners as a clear enunciation of what is and is not acceptable conduct." 1988 House Hearings at 173 (statement of Prof. Robert P. Merges). The rule of reason is difficult to apply. "The primary disadvantages of the 'rule of reason' are that it requires difficult and lengthy factual inquiries and very subjective policy decisions which are in many ways essentially legislative and ill-suited to the judicial process." *Denver Rockets v. All-Pro Mgmt., Inc.*, 325 F. Supp. 1049, 1063 (C.D. Cal. 1971); *see also Topco Assocs.*, 405 U.S. at 609-10 (noting in the antitrust context that the "inability to weigh, in any meaningful sense, destruction of competition in one sector of the economy against promotion of competition in another sector is one important reason we have formulated per se rules"). These difficulties would only be exacerbated here by the fact that, unlike in antitrust law, patent law

does not have decades of case law giving shape to the rule of reason. Adopting "one of the least certain legal rules ever propounded," 1988 House Hearings at 174 (statement of Prof. Robert P. Merges), thus risks undermining the licensing negotiation process.[4]

Second, *Brulotte* furthers the Patent Act's goal of promoting the progress of science by ensuring that subsequent inventors have both the right and the incentive to build on patented inventions with insights of their own. Patent policy implements a delicate balance between encouraging initial inventions and encouraging subsequent inventions that build on the original idea. Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 445 (2003). In the Patent Act, Congress determined that such a balance is best served by the rule that "upon the expiration of the patent the public be left free to use the invention." *Scott Paper*, 326 U.S. at 255. Thus, "after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law." *Bonito Boats*, 489 U.S. at 152. Yet post-expiration royalties increase

---

[4] Indeed, critics of the patent misuse doctrine sought to curtail it in 1988 due to the uncertainty it had caused: "'[I]n its present form [the doctrine] forces the owner of new technology to choose between either not licensing at all or licensing under circumstances which place at risk the enforceability of this property and contractual rights to that technology.'" 134 Cong. Rec. 28,008 (1988) (statement of Sen. Thurmond) (quoting letter from Robert P. Taylor, President, Am. Bar Ass'n). Introducing *greater* uncertainty by replacing *Brulotte*'s *per se* rule with a rule-of-reason approach would merely exacerbate this concern.

the cost of using the invention in the post-expiration period and thus create a disincentive for the licensee to attempt to build upon the invention even after the patent has expired.

Third, and relatedly, post-expiration royalties allow the patent holder to maintain an artificial advantage as to products requiring use of the patent. The premise of the Patent Act is that, after the patent has expired, free competition should reign among those who wish to practice the patented invention, for "[p]rotection from competition in the sale of unpatented materials is not granted by either the patent law or the general law." *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 644 (1947). By increasing a competitor's marginal cost, a licensing agreement can extend the licensor's advantage into the post-expiration period. That is especially true for patents whose use requires substantial resources and time to commercialize. In such industries, the licensee who has already incurred those costs may be the licensor's *only* viable competitor at the end of the patent term—making it critical to patent policy that the licensee be able to compete freely immediately when the patent expires.

Such an arrangement may not have anticompetitive effects cognizable under the antitrust laws. But because a "patent is a government created right to exclude," Congress has recognized that "the nature of the property right involved in a patent is fundamentally different from that involved in non-patent situations." 134 Cong. Rec. 32,294-95 n.3 (1988) (statement of Rep. Kastenmeier). Congress's judgment

that patents should be limited thus is not confined to patents that confer market power or otherwise raise antitrust concerns. In other words, when this Court's patent cases refer to improper extension of a "monopoly," the monopoly in question is over the specific invention at issue, not all products found in the relevant antitrust market. Congress could have provided a different rule for patents that lack market power, but it did not. *Cf.* 1988 House Hearings at 189 ("Congress has determined that 17 years of exclusivity provides enough incentive to call forth inventive activity[.] Parties are simply not free to circumvent this through licensing agreements.") (statement of Prof. Robert P. Merges).

B. *Brulotte* Is Part Of A Long Line Of Cases Curtailing Attempts To Expand Patent Rights By Contract.

Brulotte is only one in a consistent line of cases from this Court, stretching back into the 19th century, precluding a patent holder from enlarging patent rights by contract.

And Congress has amended the Patent Act on many occasions—including closely related provisions governing misuse—without addressing the settled rule of *Brulotte*. Indeed, Congress has rejected narrow attempts to statutorily overturn *Brulotte* specifically (by allowing post-expiration royalties as a general matter), as well as broad attempts to scale back this Court's patent misuse law generally (by requiring an antitrust violation in order to establish the defense).

Petitioners thus are not asking the Court to repudiate a single, outlier decision. Instead, petitioners ask the Court to overturn a decision based on principles that the Court has repeatedly reaffirmed, and in which Congress has acquiesced. *Stare decisis* concerns are at their height in such a case, and strongly support reaffirming the narrow *Brulotte* rule.

1. This Court's distaste for attempts at enlarging patent rights by contract stretches back at least to the decision in *Pope Manufacturing Co. v. Gormully*, 144 U.S. 224 (1892), in which the Court refused to enforce a licensing term that barred a challenge to the patent. In *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, this Court also refused to enforce a license that was conditioned on the purchase unpatented products from the patent owner. 243 U.S. 502 (1917).

The Court has had many subsequent opportunities to reiterate that patent rights are specific to the claims and strictly limited to a definite term of protection. *See Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33-34 (1931) (finding the patent holder was attempting to use the patent to obtain a limited monopoly of unpatented material used in applying the invention); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 461-63 (1938) (extending *Carbice* to apply even absent a written agreement expressly seeking to enlarge patent rights); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665-66 (1944) (refusing to enforce a license that required the licensee to purchase an unpatented component part from the patent owner); *Precision*

Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 816 (1945).

Further, *Brulotte* is not the only case from this Court which struck down a licensing agreement requiring royalty payments on sales of unpatented products. In *Zenith Radio Corp. v. Hazeltine Research, Inc.*, the Court refused to enforce a provision obligating a licensee to pay royalties on all sales of a product—even those that did not use the patent—because "conditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent . . . amount[s] to patent misuse." 395 U.S. at 135.[5]

These cases, in short—stretching back more than a century—show that *Brulotte* is by no means an outlier.

---

[5] *Zenith Radio* distinguished *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950), *overruled in part on other grounds by Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), which had upheld an arrangement in which the patent holder licensed some 570 separate patents in exchange for a royalty based on all sales by the licensee, even if the products sold did not actually rely upon the patents. 339 U.S. at 829-31. *Zenith Radio* reasoned that in *Automatic Radio*, the royalties for all sales were simply "a convenient method designed by the parties to avoid determining whether each radio receiver embodied" a particular patent, and held that "[i]f convenience of the parties rather than patent power dictates the total-sales royalty provision, there are no misuse of the patents and no forbidden conditions attached to the license." 395 U.S. at 137-38. Yet the Court also took pains to reiterate the general rule that patent "leverage" cannot "be used to garner as royalties a percentage share of the licensee's receipts from sales of other [unpatented] products." *Id.* at 136.

Rather, it is just one in a consistent line of decisions that refused to enforce a party's attempts to expand the benefits conferred by a patent.

2. *Brulotte* is not only grounded in numerous decisions of this Court; it is also a decision in which Congress has effectively acquiesced.

In 1988, Congress addressed both the patent misuse doctrine generally and the specific *Brulotte* rule, but chose not to alter *Brulotte*. In particular, Congress amended the Patent Act to provide that, for a tying arrangement to constitute patent misuse, the patent holder must have market power in the tying market. *See* Act of Nov. 19, 1988, Pub. L. No. 100-703, tit. II, § 201, 102 Stat. 4674, 4676 (enacting 35 U.S.C. § 271(d)(5)). Along the way, Congress considered proposals that would have overruled *Brulotte*. In particular, Congress considered a bill that would have prohibited only "unreasonabl[e]" extension of a royalty obligation beyond the patent period; that same proposal, moreover, would have categorically allowed such royalties "when the parties have mutually agreed to such payments after the issuance of the patent." 1988 House Hearings at 3-4. Congress also considered a proposal that not only would have done away with *Brulotte*, but would have categorically limited patent misuse to "practices or actions or inactions . . . [that] violate the antitrust laws." Intellectual Property Antitrust Protection Act of 1988, S. 438, 100th Cong., § 201(3) (1988). But Congress *rejected* both of these proposals and, instead, left *Brulotte* intact.

Congress thus has acquiesced in the *Brulotte* rule. Indeed, Congress considered the exact issue before this Court and rejected the approach that petitioners now urge. With Congress having decided *not* to overturn the settled *Brulotte* rule, there is no warrant for this Court to do so itself. *See Bob Jones Univ. v. United States*, 461 U.S. 574, 601 (1983) (congressional failure to act on bills addressing issue supports conclusion of legislative acquiescence); *Flood v. Kuhn*, 407 U.S. 258, 283 (1972) (finding "something other than mere congressional silence and passivity" where "[r]emedial legislation has been introduced" but "has [n]ever been enacted"). That conclusion is only underscored by the fact that Congress enacted a *different* amendment on the same topic instead. *See Univ. of Tex. Sw. Med. Ctr. v. Nassar*, 133 S. Ct. 2517, 2529 (2013) (fact that Congress amended a "different portion" of a statute "reinforce[s] the conclusion that Congress acted deliberately" in failing to amend the statute in other respects).

3. *Brulotte*'s firm footing in this Court's cases and Congress's conscious choice not to alter the *Brulotte* rule counsel strongly against overruling that decision. "The principle of *stare decisis* has special force in respect to statutory interpretation because Congress remains free to alter what we have done." *Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2411 (2014) (citing, among others, *John R. Sand & Gravel Co. v. United States*, 552 U.S. 130, 139 (2008)) (internal quotations omitted).

Indeed, the special force that *stare decisis* plays in traditional statutory interpretation cases makes it inappropriate to rely upon this Court's recent antitrust jurisprudence to overrule *Brulotte*. This Court has characterized the Sherman Act as a "common-law statute," affording the Court considerable latitude within the Act's capacious language. *Leegin*, 551 U.S. at 889. And the Court has gone so far as to acknowledge that "the general presumption that legislative changes should be left to Congress has less force with respect to the Sherman Act." *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997).

Not so with the Patent Act. The Court cautioned long ago against "expand[ing] patent rights by overruling or modifying our prior cases construing the patent statutes, unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language." *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972), *superseded by statute as recognized in Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444-45 (2007). Those seeking to overturn *Brulotte* point to nothing that meets this exacting standard. To the contrary, Congress has considered and rejected proposals to cast the rule aside. There is no basis for this Court to override that deliberate determination.

II. *Brulotte* Is A Clear, Narrow Rule That Allows Parties Considerable Flexibility In Structuring Royalty Payments.

Critics of *Brulotte* often characterize that decision as a broad prohibition on *all* post-expiration patent royalties. That argument is based upon an expansive—and flawed—reading of *Brulotte*'s *per se* rule. In fact, *Brulotte* leaves parties considerable flexibility to adopt the very practices that its critics wish to preserve.

Nonetheless, some lower courts have read *Brulotte* to prohibit practices that actually fall outside its narrow rule. This Court should thus clarify *Brulotte*'s narrow scope, even while reaffirming its core holding: provisions in agreements to pay post-expiration royalties that are based on post-expiration use of the patent and that result from the licensor's exercise of patent power are *per se* unenforceable.

1. As discussed above, *Brulotte* bars only one particular kind of licensing practice: a requirement to pay royalties based on the post-expiration use of a patented invention. It therefore allows parties many options to structure licensing agreements to best serve their interests.

First, parties may amortize royalty payments over any period of time they wish, provided that royalties paid after expiration are not based directly on post-expiration use of the patent. *Brulotte* and *Zenith Radio* expressly allow "deferred payments for use during the pre-expiration period." *Brulotte*, 379 U.S. at

31; *Zenith Radio*, 395 U.S. at 136; DOJ/FTC Report 117.

These basic limitations on the *Brulotte* rule eliminate many of the criticisms commonly leveled at it. Thus, contrary to what petitioners' *amici* have argued, *Brulotte* does not prohibit a licensee from "delay[ing] the payment of license fees until it is in a better position to pay, opening the door to a potentially larger universe of prospective licensees." Br. of Memorial Sloan-Kettering Cancer Ctr., *et al.*, as *Amici Curiae* in Supp. of Pet'rs 11. Nor does *Brulotte* prohibit parties from allocating risk between them by "[p]roviding for a lower royalty rate . . . in exchange for a longer royalty term," provided that post-expiration payments are not based on use of the patented invention during that period. *Id.* at 12. *Brulotte* merely renders unenforceable licensing provisions requiring royalties for the post-expiration use of a patent.

Second, *Brulotte* permits post-expiration royalties under so-called "hybrid licenses" of both patent and other intellectual property rights, as long as the post-expiration royalties are for the non-patent intellectual property. *See Boggild*, 776 F.2d at 1319 (explaining that post-expiration royalties are permitted if the parties "distinguish . . . between royalties attributable to the patent rights and those for any other rights"); *see also Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 884 (7th Cir. 1986) ("parties can contract for trade secret payments to extend beyond the life of a patent").

Later decisions from this Court reinforce this reading of *Brulotte*. In *Lear, Inc. v. Adkins*, for instance, this Court held that a licensee could not be required to pay royalties notwithstanding the patent's invalidity. 395 U.S. 653, 674 (1969). Nonetheless, the Court suggested that royalties associated with the period *before* the patent issued could be permissible if they were compensation for non-patent rights. The Court noted that "during the lengthy period in which Adkins was attempting to obtain a patent, Lear gained an important benefit not generally obtained by the typical licensee," namely, disclosure of the patented invention prior to its disclosure to the public. *Id.* at 671. *Lear* thus suggested that royalty payments compensating the patentee for something other than use of the patented invention itself—such as disclosure of the patented invention prior to the time required by patent law—do not contravene the Patent Act and, indeed, are not governed by federal patent law at all. *See also Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1023 (9th Cir. 2007) (noting that *Brulotte* does not apply to royalties issued for *foreign* patents).

Aronson v. Quick Point Pencil Co., too, supports a conclusion that the *Brulotte* rule does not encompass royalty payments made for something other than the use of the patent itself. 440 U.S. 257 (1979). In *Aronson*, the Court upheld the challenged agreement partly on the basis that no patent had existed at the time of the licensing agreement and no patent ultimately issued. *Id.* at 262, 264-65. *Aronson* explained that earlier patent misuse cases "do not bear on a contract that does not rely on a patent, particularly

where, as here, the contracting parties agreed expressly as to alternative obligations if no patent should issue." *Id.* at 262.

Read together, *Brulotte*, *Lear*, and *Aronson* teach that federal patent policy does not bar royalty payments that compensate for non-patent intellectual property or other consideration. Given that non-patent intellectual property is frequently transferred or licensed along with patent rights, the ability to structure royalty payments as compensation for these other property rights gives parties considerable flexibility to craft beneficial licensing arrangements.

Third, *Brulotte* allows "package licenses" covering multiple patents where royalties run until "the *last* of the patents incorporated into the machines had expired." 379 U.S. at 30 (emphasis added); *see also Zila*, 502 F.3d at 1023; *Hull v. Brunswick Corp.*, 704 F.2d 1195, 1202 (10th Cir. 1983) (upholding agreement "requiring [licensee] to pay the full rate until the last patent expires" because "the provision does not on its face call for royalty payments to continue after the time that no unexpired patents are being used."). Where a license covers multiple patents, therefore, the parties need not even separate out the royalties for each patent. Rather, they may lump them together and still calculate royalties based on sales until the end of the last patent. The permissibility of that approach provides considerable leeway to parties structuring complex licensing agreements involving multiple patents.

Fourth, the remedy for a *Brulotte* violation is narrow: *Brulotte* provides only an equitable defense to a patentee's attempt to enforce the agreement. *See Brulotte*, 379 U.S. at 31; *Zila*, 502 F.3d at 1023 ("*Brulotte* renders unenforceable only that portion of a license agreement that demands royalty payments beyond the expiration of the patent for which the royalties are paid."). Accordingly, this Court could hold that *Brulotte* is constrained by other equitable doctrines. For instance, a court could apply the unclean hands doctrine to prevent a sophisticated licensee from duping an unsophisticated patentee into accepting post-expiration royalties as compensation, but then seeking to avoid such royalties under *Brulotte*. In such an instance, equitable considerations might counsel in favor of holding the licensee to the bargain it struck.

2. Most of the criticism of *Brulotte* is misplaced because it rests on the faulty assumption that *Brulotte* prohibits many of the practices that it actually allows. For example, in *Scheiber v. Dolby Laboratories, Inc.*, the Seventh Circuit criticized *Brulotte*—but only on the premise that *Brulotte* held "that a patent owner may not enforce a contract for the payment of patent royalties beyond the expiration date of the patent," without acknowledging that post-expiration payments are allowed if they relate to pre-expiration use. 293 F.3d 1014, 1017 (7th Cir. 2002); *see also USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 510 (7th Cir. 1982) (similarly describing *Brulotte* as "forbid[ding] the patentee to require his licensees to pay royalties

beyond the expiration of the patent"). Much academic criticism makes the same mistake.[6]

In addition, *Brulotte* often should not apply to licensing agreements consummated before any patent issued—especially those made before any patent application is even filed—given that such a context makes it far less likely that resulting royalty payments will be for post-expiration use *of the patented invention*. But the Sixth, Seventh, and Eleventh Circuits have each applied *Brulotte* to licensing agreements negotiated before any patent issued. *See Boggild*, 776 F.2d at 1319; *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1367, 1370-74 (11th Cir. 1983); *Meehan*, 802 F.2d at 884. Further, both *Meehan* and *Boggild*

---

[6] Harold See & Frank M, Caprio, *The Trouble with* Brulotte: *The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 814 (mistakenly asserting that *Brulotte* "requires the licensor and licensee to amortize the present value of the license fee over the remaining years of the patent term, rather than over a longer period of years, even if a longer amortization period is optimal for the parties"); *see also* 1 Herbert Hovenkamp et al., *IP and Antitrust* § 23.2b, at 23-15 (2d ed. 2015) (mistakenly stating that "*Brulotte*'s per se rule limits the ability of patentees to amortize royalty payments over longer periods than the remaining life of the patent, even when such an arrangement is in the interest of the licensee"); 2 John W. Schlicher, *Patent Law, Legal and Economic Principles* § 11:27 (2d ed. 2012) (mistakenly criticizing *Brulotte* for preventing parties from "spreading royalties over a longer period" than the patent term, which "helps the licensee defer costs"); Thomas F. Cotter, *Misuse*, 44 Hous. L. Rev. 901, 939 n.169 (2007) (mistakenly cautioning that "[i]n the wake of *Brulotte*, parties should structure their transactions so that all royalties attributable to the patent are paid before the end of the term").

applied the rule to agreements negotiated before the licensor had even *applied* for the patent. *See Boggild*, 776 F.2d at 1319; *Meehan*, 802 F.2d at 884 ("We agree with the Sixth Circuit's holding that the *Brulotte* rule should be extended to agreements entered into in anticipation of applying for patents.").

To the extent those cases imply that *Brulotte* categorically applies to licensing agreements entered into prior to patent issuance, they are inconsistent with *Brulotte*'s rationale. *Brulotte*—like other decisions of this Court—bars the use of the *power of the patent* to negotiate a contract purporting to expand the scope of patent rights beyond its expiration. 379 U.S. at 32-33. *Aronson*, by contrast, upheld the licensing agreement at issue partly on the ground that, because the licensor lacked the ability to leverage an existing patent, it had less power to coerce a post-expiration royalty for the patent. 440 U.S. at 262, 265; *cf. Scheiber*, 293 F.3d at 1019 (noting that in *Aronson*, "[s]ince no patent was granted, the doctrine of patent misuse could not be brought into play").

Applying *Brulotte* across-the-board to pre-patent agreements does not account for an important point inherent in most such agreements: the likelihood that the royalties are primarily compensation for non-patent rights, such as trade secrets or disclosure of the patented idea prior to the time required by the Patent Act. In *Aronson*, for example, the agreement required some royalties to be paid regardless of whether the patent issued; those royalties by definition could not have been for patent rights. 440 U.S. at 259, 262; *see*

also Lear, 395 U.S. at 671-72. Pre-patent licensing agreements are akin to such hybrid licenses, in that they are much less likely to implicate the federal policy against extending *patent* rights beyond the patent term than agreements entered into when the licensor has a patent in hand.

To be sure, a limited set of pre-patent agreements should be subject to *Brulotte* even where the agreement was consummated before the patent issued. For example, if the licensing agreement was conditioned on a patent issuing or the issuance of a patent was such a near-certainty as to leave no plausible argument that the royalties were compensation for something other than patent rights, then *Brulotte* should apply. But outside that context, *Brulotte* should not apply to pre-patent agreements.

CONCLUSION

Although AIPLA takes no position on the appropriate result in this particular dispute, the Court should reaffirm the core holding of *Brulotte* that a licensing provision requiring payment of royalties for post-expiration use of a patent is unenforceable as a matter of federal patent policy.

Respectfully submitted,

SHARON A. ISRAEL
PRESIDENT
AMERICAN
INTELLECTUAL
PROPERTY LAW
ASSOCIATION
241 18th Street South
Suite 700
Arlington, VA 22202
(703) 415-0780

PAUL M. SMITH
Counsel of Record
JOSHUA M. SEGAL
JENNER & BLOCK LLP
1099 New York Ave. NW
Suite 900
Washington, D.C. 20001-4412
(202) 639-6000
psmith@jenner.com

PAUL D. MARGOLIS
DANIEL T. FENSKE
JENNER & BLOCK LLP
353 N. Clark Street
Chicago, IL 60654-3456
(312) 222-9350

Counsel for Amicus Curiae

AMICUS CURIAE BRIEF

No. 13-720

Supreme Court, U.S.
FILED
FEB 3 - 2015
OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

STEPHEN KIMBLE, *et al.*,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK AS *AMICUS CURIAE* IN SUPPORT OF NEITHER PARTY

JAMES KLAIBER
Chair, Committee on Patents
The Association of the Bar of the City of New York
PRYOR CASHMAN LLP
7 Times Square
New York, New York 10036
(212) 421-4100

Of Counsel

FIONA SCHAEFFER
Counsel of Record
Chair, Committee on Antitrust
The Association of the Bar of the City of New York
MILBANK TWEED HADLEY & MCCLOY LLP
One Chase Manhattan Plaza
New York, New York 10005
(212) 530-5000
fschaeffer@milbank.com

Counsel for Amicus Curiae
The Association of the Bar of the City of New York

Additional Counsel Listed on Signature Page

257899

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

Library of Congress
Law Library

QUESTION PRESENTED

Whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

TABLE OF CONTENTS..... ii

TABLE OF CITED AUTHORITIES iii

I. STATEMENT OF INTEREST OF *AMICUS CURIAE* 1

II. SUMMARY OF ARGUMENT 2

III. ARGUMENT 3

A. A Patent Is Not An Automatic Grant Of Monopoly Power To The Patent Holder 3

B. Royalty Payments Scheduled Post Patent Expiration Do Not Extend the Patent Monopoly 7

C. Post-Expiration Royalties Encourage Innovation, Increase Economic Efficiency, And Promote Competition By Expanding The Range Of Potential Licensees..... 10

IV. CONCLUSION 15

TABLE OF CITED AUTHORITIES

Page

CASES

Brulotte v. Thys Co.,
379 U.S. 29 (1964) . . . . . *passim*

Business Electronics Corp. v. Sharp Electronics Corp.,
485 U.S. 717 (1988) 2

Illinois Tool Works Inc. v. Independent Ink, Inc.,
547 U.S. 28 (2006) 4, 5, 6, 7

International Salt Co. v. U.S.,
332 U.S. 392 (1947) 4

King Instruments Corp. v. Perego,
65 F.3d 941 (Fed. Cir. 1995) 5

Morton Salt Co. v. G.S. Suppiger Co.,
314 U.S. 488 (1942) 4

STATUTES AND OTHER AUTHORITIES

35 U.S.C. § 154 4

35 U.S.C. § 271(d)(5) 7

DENNIS W. CARLTON & JEFFREY M. PERLOFF,
MODERN INDUSTRIAL ORGANIZATION 692
(2nd ed. 1994) 12

Cited Authorities

Page

Eric J. Marandett & Sophie F. Wang, *Trade Secrets in Life Sciences: Challenges and Opportunities in a Collaborative and Mobile Environment*, 87 PAT. TRADEMARK & COPYRIGHT J. (BNA) 89 (2013) 14

Henry G. Grabowski & Margaret Kyle, *Generic Competition and Market Exclusivity Periods in Pharmaceuticals*, 28 MANAGERIAL & DECISION ECON. 491 (2007) 8

HUBBARD & O'BRIEN, ECONOMICS 474 (2nd Ed. 2008) 3

Hugo A. Hopenhayn & Matthew F. Mitchell, *Innovation Variety and Patent Breadth*, 32 RAND J. ECON. 152 (2001) 8

Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, BROOKINGS PAPERS ON ECON. ACTIVITY, MICROECONOMICS 283 (1997) 8, 9, 10, 13

Richard Gilbert & Carl Shapiro, *Optimal Patent Length and Breadth*, 21 RAND J. ECON. 106 (1990) 8

Stephen Law, *Inter-temporal Tie-ins: A Case for Tying Intellectual Property Through Licensing*, 11 INT'L J. ECON. OF BUS. 3 (2004) 13

Cited Authorities

Page

SUZANNE SCOTCHMER, INNOVATION AND INCENTIVES 86 (2004) 9, 12, 13

U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 2 (2007) 6, 12, 13

I. STATEMENT OF INTEREST OF *AMICUS CURIAE*

The Association of the Bar of the City of New York ("Association"), through its Committee on Patents and its Committee on Antitrust, submits this *amicus curiae* brief in response to the Court's December 12, 2014 Order granting the petition for certiorari of Stephen Kimble et al. ("Kimble" or "Petitioner") and setting forth the question presented above. The Association files this brief in accordance with Rule 37 of this Court, and supports the position of neither party.[1] The parties to the appeal have consented to the filing of this amicus brief.[2]

The Association is a private, non-profit organization of more than 24,000 members who are professionally involved in a broad range of law-related activities. Founded in 1870, the Association is one of the oldest bar associations in the United States. The Association seeks to promote reform in the law and to improve the administration of justice at the local, state, federal and international levels through its more than 160 standing and special committees. The Committee on Antitrust ("Antitrust Committee") and the Committee on Patents ("Patents Committee") are

---

1. With regard to the inquiries raised by Supreme Court Rule 37.6, no party's counsel authored this brief in whole or in part. No party or party's counsel or no person – other than the amicus curiae, its members, or its counsel – contributed money that was intended to fund the preparation or submission of this brief. SUP. CT. R. 17.

2. Petitioners and Respondent consented in writing to the filing of this amicus curiae brief on January 14, 2015 and January 16, 2015, respectively.

long-established standing committees of the Association, and their membership reflects a wide range of corporate, private practice and academic experience in antitrust and patent law. The participating members of the Committees are dedicated to promoting the Association's objective of improving the administration of the antitrust and patent laws.

II. SUMMARY OF ARGUMENT

In *Brulotte v. Thys Co.*, this Court held under federal common law that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964). In light of this Court's other decisions concerning the intersection of the laws of antitrust and intellectual property, a patent owner's ability to accept royalties, even beyond the patent's expiration date, should be analyzed under the rule of reason rather than a rigid *per se* rule. The *per se* rule of *Brulotte* is based on the erroneous assumption that royalties paid after a patent's expiration somehow extend the patent right and thus extend a patent owner's presumed monopoly power over the applicable market. However, in reality the ability to schedule the timing of royalty payments after the expiration of a patent is generally procompetitive because it encourages innovation, increases the ability to license technology, and promotes overall economic activity. Furthermore, there is no evidence that post-termination royalty payments "always or almost always tend to restrict competition and decrease output" as required for *per se* condemnation to be applicable. *See Business Electronics Corp. v. Sharp Electronics Corp.*, 485 U.S. 717, 723 (1988). Therefore, a licensee seeking to avoid paying post-termination royalties

should be required to prove under a rule of reason analysis that extending royalty payments beyond the patent term is unlawful under the antitrust laws.

III. ARGUMENT

A. A Patent Is Not An Automatic Grant Of Monopoly Power To The Patent Holder

In economics, a monopoly is defined formally as a market condition in which there is a single supplier of a product. In the textbook version of monopoly, a monopolist faces no competition from existing or potential rivals and thus has unfettered market or monopoly power. Market power refers to how much control a seller has over the price it charges for its output. The textbook monopolist has total control over the price of its output.[3] At the other end of the spectrum, individual firms in the textbook version of perfect competition have no control over the price of their output because "the market" sets the price. For this reason, economists often refer to firms in perfectly competitive markets as "price takers." These firms take market prices as given and have no unilateral influence over price.[4]

Most commerce, however, takes place in markets where competition is "imperfect," in the sense that sellers' products are differentiated, and therefore sellers have some control over their prices. Unlike a textbook "perfect" competitor, these firms can raise prices somewhat without losing all their customers, and they can lower prices

3. HUBBARD & O'BRIEN, ECONOMICS 474,487 (2nd Ed.2008).

4. *Id.* at 379.

somewhat without being completely overrun by customer demand. Because product differentiation is so common in the economy, many firms possess some degree of market power. Economists are generally only concerned with market power to the extent it threatens competition by insulating the firm's pricing decisions from the restraining influence of competing firms. This restraint comes from existing rivals as well as potential new entrants into the firm's market.[5]

Under the Patent Statute, the government grants patent owners limited rights to exclude others for a term of years, in exchange for the patent owner's rights inuring to the benefit of the public and entering the public domain upon patent expiration. *See* 35 U.S.C. § 154. Specifically, the patentee may exclude others from making, using, offering for sale, selling, or importing the invention. *Id.* In *Brulotte*, this Court held that "extraction of royalties... after the patent has expired is an assertion of monopoly power in the post-expiration period when... the patent has entered the public domain." *Brulotte*, 379 U.S. at 33. This holding of *Brulotte* was premised on the assumption that patent ownership in and of itself confers monopoly power, which may then be unlawfully extended by the post-expiration payment of royalties. *See id.* at 33. This assumption – that a patent grants market power – found its origins in the doctrine of patent misuse. *See International Salt Co. v. U.S.*, 332 U.S. 392 (1947); *see also Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942). But this notion has since been summarily overruled by *Illinois Tool Works Inc. v. Independent Ink, Inc.*, where this Court clarified – consistent with accepted economic doctrine –

5. *Id.* at 412-16.

that a patent does not necessarily confer market power on the patent owner. *See* 547 U.S. 28, 44 (2006).

In *Illinois Tool Works*, the petitioner sold printing systems, having two patented components and unpatented ink, conditioned on their customers' agreement that ink would be bought solely from the petitioner. *See id.* at 31-32. After a grant of summary judgment for the petitioner by the District Court (and a reversal by the Federal Circuit), this Court held that without specific proof of a patent-holder's market power, tying agreements – even including a "requirements tie," i.e., a tying arrangement involving the purchase of unpatented goods over a period of time – do not constitute *per se* patent misuse. *See id.* at 42-43.

Thus, while a patent confers certain limited rights, it does not in and of itself confer, or necessarily equate with, monopoly power on the patent holder.[6] The ability of consumers to switch to other closely substitutable product(s) constrains the price a supplier can charge for its product. Two products are substitutes on the demand side if an increase (or decrease) in the price of one causes an increase (or decrease) in the demand for the other, all other things being equal. Thus, a patent will not confer market power on the patent holder if the pricing of the patented product is constrained by the ability of consumers to

6. In fact, the only rights provided by the patent are the rights to exclude others from practicing the invention– a patent owner may itself not be able to produce and sell its patented invention, due to patents assigned to others. *See King Instruments Corp. v. Perego*, 65 F.3d 941, 949 (Fed. Cir. 1995).

switch to substitutable non-infringing products.[7] For example, the holder of a patent over a particular drug will not have market power if consumers are readily able to substitute non-infringing drugs (which may or may not be patented) to treat the same condition.

As a result, and as recognized by this Court in *Illinois Tool Works*, the ability of any firm, including a patent holder, to exercise market power depends on a number of economic factors that require a case-by-case analysis. *See* 547 U.S. at 44-45. For example, the ability of a patent holder to exercise market power may depend not only upon the existence of non-infringing demand substitutes, but also the ability of producers of those substitutes to produce and sell them in sufficient quantity to constrain the pricing of the patent holder. It can also depend on other factors such as costs of designing around the patent and strategic interactions among market participants.

Recognizing this economic reality, Congress amended the Patent Statute to eliminate the market power presumption in certain patent misuse cases:

> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement

---

7. U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 2, 22 (2007), available at http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf ("Although some intellectual property rights may create monopolies, intellectual property rights do not necessarily (and indeed only rarely) create monopolies because consumers may be able to substitute other technologies or products for the protected technologies or products.").

> of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: ... (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, *unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.*

35 U.S.C. § 271(d)(5) (as amended, 1988) (emphasis added). This amended statute makes clear that Congress did not intend that merely tying a patent to another patent or product would constitute patent misuse absent market power, and this Court's decision in *Illinois Tool Works* further cemented the underlying rationale.

Thus, the rule in *Brulotte* was founded on the erroneous premise that a patent inherently conveys market power – a premise that was later abrogated by this Court in *Illinois Tool Works*. This Court should therefore overrule the *per se* rule of *Brulotte* and adopt the more flexible and pragmatic rule of reason approach.

B. Royalty Payments Scheduled Post Patent Expiration Do Not Extend the Patent Monopoly

A patent owner's right to exclude others expires at the time of patent expiration. Once a patent expires, others are free to incorporate the formerly patent-protected technology into their products without consent of the

patent holder. Patent expiration can and does induce the entry of rivals offering substitute products in the market. In the pharmaceutical industry, for example, once the brand-name drug's patent(s) expire, new firms rapidly enter the market and offer consumers generic equivalents of the brand-name drug.[8]

While the strength of the patent can depend on the duration of patent protection ("patent length") along with the scope of patent protection ("patent breadth") conferred by U.S. patent policy,[9] it does not depend on the duration of royalty payments ("payment length"). This is because patent length is not affected by payment length.[10] More generally, increasing payment length does not increase the strength of patent protection (i.e., patent length and patent breadth).[11] Given the foregoing, allowing licensees to pay post-expiration royalties cannot, by itself, "enlarge the monopoly of the patent" (as determined by the court in *Brulotte*).

---

8. Henry G. Grabowski & Margaret Kyle, *Generic Competition and Market Exclusivity Periods in Pharmaceuticals*, 28 MANAGERIAL & DECISION ECON. 491 (2007).

9. Hugo A. Hopenhayn & Matthew F. Mitchell, *Innovation Variety and Patent Breadth*, 32 RAND J. ECON. 152 (2001); Richard Gilbert & Carl Shapiro, *Optimal Patent Length and Breadth*, 21 RAND J. ECON. 106 (1990).

10. Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, BROOKINGS PAPERS ON ECON. ACTIVITY, MICROECONOMICS 283, 322 (1997).

11. *Id.*

Whether a patented product enjoys any amount of market power is a separate question, to be determined by economic factors that include the technological contribution of the patent and the substitutability of other products for the patented one.[12] Given the foregoing, there is no reason to believe that permitting post-expiration royalties would on their own give rise to any economic market power. Moreover, regardless of the law on post-expiration royalties, rational licensees would not, in economic terms, be expected to pay more to acquire a license simply because they have the ability to pay royalties over a longer period of time. There is no reason to believe that these licensees would agree to pay more than the value of the patent simply because they are paying over a longer period. Indeed, as further addressed below, giving potential licensees the flexibility to pay royalties over a longer period may well prove beneficial to the licensee.[13]

---

12. SUZANNE SCOTCHMER, INNOVATION AND INCENTIVES 86-87 (2004).

13. Gilbert & Shapiro, *supra* note 10, at 322 (Given that the use of post-expiration royalties will not confer additional monopoly power on the patent holder, it may be optimal to have such payments be *per se* legal. However, the rule of reason provides the court with the flexibility to deal with unforeseen circumstances that may require individual analysis).

C. Post-Expiration Royalties Encourage Innovation, Increase Economic Efficiency, And Promote Competition By Expanding The Range Of Potential Licensees.

The Patent Statute provides for the expiration of patent rights with the expiration of the patent term, and *Brulotte* holds that the expiration of the patent right also extinguishes contracting parties' obligation to pay or right to receive royalties for exploiting the patent. *See Brulotte*, 379 U.S. at 33-34. *Brulotte* concludes that a patent owner's use of a royalty agreement that projects beyond the expiration date of the patent is *per se* an unlawful extension of a monopoly that hurts competition in free markets. *See Brulotte*, 379 U.S. at 32-33.

However, there is no evidence that post-expiration royalties have any harmful impact on competition in markets. In reality, giving contracting parties the latitude to structure their payment options over a longer period actually promotes economic activity and competition. In particular, permitting licensees to pay royalties after patent expiration enables a patent holder to grant licenses to licensees that would prefer to stagger royalties over a longer period and might not otherwise have sufficient funds to pay.[14] Greater freedom in licensing can lead to more licenses, which, in turn, can encourage innovation, increase economic efficiency, and promote competition. The following example illustrates how moving from the *per se* rule of *Brulotte* to the rule of reason can facilitate innovation through the earlier use of patented technology, increase efficiency by facilitating the use of superior technology, and promote entry into the market. Suppose:

---

14. Gilbert & Shapiro, *supra* note 10, at 322.

A. Licensor holds Patent X;

B. Patent X expires 2 years from today;

C. Licensor is willing to license Patent X if it receives $150 in total royalties; and

D. Licensee would like to license Patent X today in order to develop a new product but is liquidity-constrained and can only pay $50 per year.

Under *Brulotte*, a license agreement between the Licensor and Licensee in this example is not feasible because Licensee can only pay $100 to Licensor ($50 in Year 1 and $50 in Year 2). No license would be consummated, and as a result Licensee would either have to wait 2 years to incorporate the patented technology into its product or pursue a (possibly inferior) non-infringing alternative. If, however, post-expiration royalty payments were allowed, a license agreement would be consummated as the Licensee can pay royalties not exceeding $50 over more than 2 years (e.g., $50 per year for 3 years or $25 per year for 6 years) that add up to $150 for a license for Patent X today rather than two years hence.

As illustrated in this example, enabling a licensee to spread its royalty payments over a longer period can facilitate the consummation of license agreements that might not otherwise be feasible in nascent industries or for new entrant licensees. Such flexibility, in turn, encourages innovation through the earlier use of patented technology; and increases economic efficiency by avoiding costs associated with the would-be licensee's pursuing

possibly inferior non-infringing alternatives.[15] This ability to stagger payments also may lead to an increase in the number of entrants (e.g., by liquidity-constrained firms) into certain markets, which promotes competition.

Furthermore, by increasing the potential payoffs to both the patent holder and licensee, the ability to agree to post-expiration royalties encourages both pioneering and follow-on innovations.[16] Licensing generally benefits both licensors and licensees as it increases the use of existing knowledge, which can be used by licensees to enter new markets or produce new products. Among other reasons, patents are licensed in order to:

- produce proprietary products efficiently;
- let others use the intellectual property as inputs to subsequent innovations; and
- resolve blocking rights or enable development of complementary innovations.[17]

These reasons are procompetitive as they encourage patent holders to permit, rather than exclude others, from efficient uses of the patent holder's intellectual property and associated technology. For example, a firm that

---

15. U.S. Dep't of Justice & Fed. Trade Comm'n, *supra* note 7, at 117-118; SCOTCHMER, *supra* note 12, at 161-169; DENNIS W. CARLTON & JEFFREY M. PERLOFF, MODERN INDUSTRIAL ORGANIZATION 692-698 (2nd ed. 1994).

16. *See* SCOTCHMER, *supra* note 12, at 132-163.

17. *Id.*

develops a new product is not necessarily the most efficient firm to produce it. Licensing can increase efficiency by having the product made by one or more other firms with lower manufacturing costs.[18]

Furthermore, extending the period over which royalties may be payable generally serves to promote economic efficiency by reducing the degree of "deadweight loss,"[19] i.e., the loss in economic efficiency that results from non-optimal market conditions. Improving efficiency also leads to an increase in the reward from a patent and enables inventors to capture more fully the value of their patented technology, a result that will lead to a more efficient level of innovation.[20]

From an economic perspective, policies that increase the use of knowledge through mechanisms, such as licensing, encourage innovation and competition.[21] For example, in industries in which early-stage development costs and uncertainty as to research and development success are high (e.g., emerging industries), payment of post-expiration royalties can reduce the barriers to entry by making a license (to enter the market) more affordable. This "extended-payment" option can induce more entities to enter the market. Similarly, the use

---

18. *Id.*

19. *See, e.g.*, Gilbert & Shapiro, *supra* note 10; Stephen Law, *Inter-temporal Tie-ins: A Case for Tying Intellectual Property Through Licensing*, 11 INT'L J. ECON. OF BUS. 3 (2004).

20. U.S. Dep't of Justice & Fed. Trade Comm'n, *supra* note 7, at 118; Law, *supra* note 19, at 4.

21. SCOTCHMER, *supra* note 12, at 132-168.

of post-expiration royalties can facilitate risk-sharing between a patent holder and licensee that can also lead to more consummated license agreements.[22]

In summary, *Brulotte* limits the flexibility of a licensor and licensee to negotiate efficient payment arrangements, which causes economically inferior payment structures and prevents some licenses from being consummated at all. Parties licensing a single technology are often forced to use inefficient mechanisms to prevent related intellectual property royalties from becoming unenforceable when the term of a corresponding patent expires.[23] In this regard, this Court in reviewing the holding of *Brulotte* should consider that a change from a *per se* rule of to a rule of reason has the potential to increase social welfare by encouraging innovation, increasing efficiency, and promoting competition.

---

22. For example, the use of post-expiration royalties can allow the patent holder to share the risk inherent in the licensee's business by agreeing to accept royalties that are conditional on the licensee achieving long-term success.

23. Eric J. Marandett & Sophie F. Wang, *Trade Secrets in Life Sciences: Challenges and Opportunities in a Collaborative and Mobile Environment*, 87 PAT. TRADEMARK & COPYRIGHT J. (BNA) 89 (2013).

IV. CONCLUSION

For the reasons set forth above, current economic thought and this Court's own recent jurisprudence support overruling the *Brulotte* holding that a royalty agreement that extends beyond the expiration of the patent term is unlawful *per se*. Worthy of close attention are the arguments made that (1) the *per se* rule of *Brulotte* is based on the erroneous assumption that royalties paid after a patent's expiration somehow extend the patent right and thus extend a patent owner's monopoly power over the applicable market; (2) that the contracting parties' ability to pay royalties after the expiration of a patent can encourage innovation, increase economic activity, and promote competition; and (3) that licensees seeking to avoid payment of post-expiration royalties should have to prove under a rule of reason analysis that extending royalty payments is anticompetitive under the antitrust laws. Changing the existing *per se* rule of *Brulotte* to a rule of reason would serve to provide more freedom in the market for knowledge, and such a change can only improve social welfare.

Respectfully submitted,

JAMES KLAIBER
Chair, Committee on Patents
The Association of the Bar of the City of New York
PRYOR CASHMAN LLP
7 Times Square
New York, New York 10036
(212) 421-4100

FIONA SCHAEFFER
Counsel of Record
Chair, Committee on Antitrust
The Association of the Bar of City of New York
MILBANK TWEED HADLEY & MCCLOY LLP
One Chase Manhattan Plaza
New York, New York 10005
(212) 530-5000
fschaeffer@milbank.com

TIMOTHY P. HEATON
TROUTMAN SANDERS LLP
405 Lexington Avenue
New York, New York 10174
(212) 704-6000

RYAN S. OSTERWEIL
DAY PITNEY LLP
7 Times Square
New York, New York 10036
(212) 297-5800

Of Counsel

AARON L. J. PEREIRA
BUCHANAN INGERSOLL & ROONEY PC
1290 Avenue of the Americas
New York, New York 10104
(212) 440-4400

JOHN GLADSTONE MILLS III
PATENT COUNSEL GROUP LLP
The Commonwealth Building
2045 North 15th Street, Suite 205
Arlington, Virginia 22201
(703) 338-7090

Counsel for Amicus Curiae
The Association of the Bar of
the City of New York

February 3, 2015

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
FEB 4 - 2015
OFFICE OF THE CLERK

No. 13-720

IN THE
Supreme Court of the United States

STEPHEN KIMBLE AND ROBERT MICHAEL GRABB,
Petitioners,

v.

MARVEL ENTERPRISES, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF BIOTIME, INC. AS AMICUS CURIAE IN SUPPORT OF PETITIONERS

ROBERT H. STIER, JR.
Counsel of Record
WILLIAM L. WORDEN
DANIEL A. LEV
PIERCE ATWOOD LLP
100 Summer Street
Suite 2250
Boston, MA 02110
(617) 488-8000
rstier@pierceatwood.com

Counsel for Amicus Curiae

February 4, 2015

TABLE OF CONTENTS

Page

TABLE OF CONTENTS i

INTERESTS OF AMICUS CURIAE 1

SUMMARY OF ARGUMENT 2

ARGUMENT 3

I. **BY OVERRULING *BRULOTTE*, THE COURT WILL HELP REDUCE THE COST AND COMPLEXITY OF PATENT LICENSE AGREEMENTS.** 3

CONCLUSION 9

TABLE OF AUTHORITIES

CASES

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979) 6

Brulotte v. Thys Co., 379 U.S. 29 (1964) ..... passim

Indus. Promotion Co. v. Versa Prods., Inc., 160 Wis. 2d 916 6

Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365 (11th Cir. 1983) 7

OTHER AUTHORITIES

Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325 (2004) 4, 8

Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 Hastings Sci. & Tech. L.J. 21, 62 (2008) 6

U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007) 8

INTERESTS OF AMICUS CURIAE[1]

Amicus curiae BioTime, Inc. is an innovative biotechnology company in the emerging field of regenerative medicine. As one example of its work, BioTime has developed a large bank of NIH-approved clinical grade stem cell lines. These stem cell lines are fundamental tools used by medical researchers at universities and private firms. The cell lines were created using technologies developed and patented by BioTime or licensed from others. Consequently, patent licenses are fundamental to BioTime's primary business activities.

As important as they are, the approximately 400 patents held by BioTime and its subsidiaries are not their only valuable intellectual property. BioTime and its subsidiaries also hold highly valuable trade secrets and know-how for the effective maintenance and use of the stem cell lines. In addition, they own an extensive set of data related to the stem cell lines.

Licenses to BioTime's intellectual property nearly always include both patent and non-patent (e.g., know-how or data) rights. For companies involved with such "hybrid" licenses, the *per se* rule

---

[1] Pursuant to Supreme Court Rule 37.6, *amicus curiae* states that (1) no counsel for a party in this case authored this brief, in whole or in part, and (2) no person or entity, other than BioTime or its counsel, made a monetary contribution to the preparation or submission of this brief. Copies of consents from the parties to file this brief have been provided to the Clerk of the Court.

under *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), adds complexity and imposes significant transaction costs—factors that should be considered in determining whether to maintain or overrule the *Brulotte* rule. Because BioTime's position is representative of many other companies that supply basic tools for modern medical research, an examination of its experience illustrates the public interest in moving away from the *per se* rule in favor of a rule of reason approach.

SUMMARY OF ARGUMENT

As a frequent licensor and licensee of intellectual property, BioTime writes to inform the Court of the practical implications of the *Brulotte* rule. As numerous commentators and Courts of Appeal have noted, to the extent *Brulotte* was correctly decided in the first instance, its rule is unsustainable in view of the Court's more recent and refined view of the intersection between patent and antitrust law.

Brulotte is a legacy of a bygone era when the Court assumed that a patent conferred market power on the patentholder. The Court has since recognized that this assumption is not true. Although the Court has rejected the policies underlying *Brulotte*, the decision continues to bind the lower courts to follow its *per se* rule.

Respondent argues that concerns about *Brulotte* are exaggerated because the *Brulotte* rule is easily circumvented by sophisticated contract drafting. If only that were true. Although

sophisticated parties like BioTime have been forced to draft around *Brulotte* for the past 50 years, there are significant costs associated with such efforts. Such increased transaction costs become particularly burdensome for parties like BioTime that are engaged in negotiating hybrid license agreements.

As we explain below, BioTime supports overturning *Brulotte* and its application by the Ninth Circuit in this case. A rule of reason test would better serve the interests of both licensors and licensees.

ARGUMENT

I. BY OVERRULING *BRULOTTE*, THE COURT WILL HELP REDUCE THE COST AND COMPLEXITY OF PATENT LICENSE AGREEMENTS.

Hybrid intellectual property license agreements between sophisticated parties—the kind of agreements that BioTime regularly negotiates—are complex commercial arrangements. In a typical transaction where BioTime is licensing its intellectual property, the license agreement may grant to its licensee: (a) access to certain stem cell lines, (b) a license to use data associated with those stem cell lines, (c) a license to use proprietary know-how to prepare, maintain and effectively use those stem cell lines, and (d) a license under any BioTime patents and patent applications covering inventions related to those stem cell lines.

One reason for this complexity is that the assets underlying the transaction—the intellectual

property and technology assets—are not as discrete or as easily defined as other commercial assets, such as real estate or equipment. *See* Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325 (2004) ("Posner").

Assume, for example, that a licensee intends to conduct medical research using BioTime's cell lines, know-how and data, and following methods that are the subject of BioTime patents or patent applications. In the process, the licensee may develop its own know-how and data, and may even extend BioTime's patented technology with inventions of its own. The parties may agree to share the rights to such new assets and to make them the subject of license provisions. Thus, the nature of the technology subject to the license may change over time.

The scope of the licensed assets is often uncertain for an entirely different reason. Typically, a license to use patents will include not only issued patents, but also applications that are in prosecution, and even related applications that may be filed in the future, e.g., continuation and divisional applications. At the time of the license agreement, the parties will not know the ultimate scope of those applications that may issue in the future, assuming that they issue at all.

Even if the parties to a license could predict the scope of future patent coverage, they would not know whether those patents would provide exclusive

control over a commercially successful research outcome.

While the parties may hope that a commercially successful product will result from their collaboration, the ultimate nature of that product is difficult to predict at the outset. The product might be a drug, a medical device, a new diagnostic technique or device, a database of clinical information, software, or a product used in medical treatment. The licensed patents may cover some but not all of these applications.

Finally, the parties cannot know at the outset how the fruits of the research should best be protected. They might decide, for example, that critical elements of the technology are better protected through trade secrets, not patents, particularly if the result of the research is difficult to reverse engineer. Thus, the optimal mix of patent and non-patent intellectual property rights is typically not known when BioTime negotiates a license with a medical researcher.

Given the significant uncertainties associated with such licenses, one might expect rational parties to adopt royalty and other terms that are both simple and flexible, particularly in the early stages of the license term when the outcome of the research is unclear and the relative contributions of the various licensed assets is unknown. Before there is a commercial product generating a revenue stream, licensees might be expected to favor low royalty payments, just as licensors might prefer to forego early royalty revenues in favor of an interest in a

future commercial product. Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 Hastings Sci. & Tech. L.J. 21, 62 (2008) ("The ability to share in that upside may be important to the prospects, research programs, and financial viability of the tool inventor."). It is precisely here that the *Brulotte* rule works its most troubling mischief.

Rather than promoting simplicity and flexibility, *Brulotte* forces licensed parties to adopt separate royalty regimens for patents and for non-patent intellectual property assets unless they can prove a negative: that the terms of the license are clearly not subject to patent leverage. But given the extent to which patents are inevitably intertwined with other intellectual property rights in hybrid license agreements, and considering the uncertainties that the parties are dealing with at the time they enter a license, proving an absence of patent leverage is highly problematic.

In short, *Brulotte* takes an already complex situation and makes it even worse.

The *Brulotte* rule forces BioTime and others to include a so-called royalty step-down in their license agreements. *See Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Indus. Promotion Co. v. Versa Prods., Inc.*, 160 Wis. 2d 916, 923-24 ("To be innocent of patent misuse or even the perception of misuse, the agreement must clearly distinguish between payments for trade secrets and patent royalties."). But the royalty step-down is an arbitrary

accommodation to the rule. The concept is that when a patent expires, the royalties due under a license should be reduced accordingly. *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1373 (11th Cir. 1983) ("Assuming that the value of the agreement to Pitney Bowes was not as high after the patents expired, it is reasonable to assume that at least some part of the post-expiration payment constituted an effort to extend payments for patent rights beyond the patent period."). But that assumes both that the value of the license is due primarily to the licensed patents, and that the value of a patent relates only to the product or process developed by the licensee. Neither assumption is warranted.

We have already considered the many ways in which non-patent assets such as trade secrets may generate value for a licensee. Moreover, the value of such assets may change over time. Thus, the know-how covered by a hybrid license may increase in value over the course of the license.

Licensed patents are similarly difficult to evaluate, especially at the outset of a collaboration. For example, even though a broad patent covering a licensee's product may expire, the license may continue to provide equivalent value to the licensee because a narrow but unexpired patent blocks a potential competitor from developing a similar product.

Brulotte does not merely increase complexity in licensing transactions; trying to accommodate the rule also increases transaction costs. *See, e.g.*, U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust*

Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (Apr. 2007) ("2007 DOJ/FTC Report") at 121 (explaining that bundling different IP rights, i.e., trade secrets and patent rights, reduces transacting costs); Posner at 334 ("bundling reduces transaction costs"). One natural consequence of increasing transaction costs is a concomitant decline in the number of transactions. *See* Posner at 325 ("The higher that [transaction] cost, the less likely the transaction is to be made.").

When the number of issues that must be negotiated in a license agreement increases, it is natural to expect that the cost of the transaction will also increase. Royalty terms in a hybrid license agreement are not "boilerplate" contractual terms; rather, they are at the core of the business agreement. Thus, it is BioTime's experience that requiring parties to distinguish the value of the licensed patent rights from the licensed non-patent rights significantly increases the transaction costs associated with the license.

In summary, the *per se* rule adopted in *Brulotte* forces parties such as BioTime to make an allocation between licensed patent and non-patent assets. The rule thereby adds unnecessary complexity and cost to an already complex and expensive undertaking. *See* 2007 DOJ/FTC Report at 118-19 (noting that agreements that violate *Brulotte* "enables a licensor to overcome incomplete contracting" that prevents the parties from negotiating a satisfactory royalty rate).

CONCLUSION

For at least the foregoing reasons, the Court should overrule the "reluctant" judgment of the Court of Appeals for the Ninth Circuit and the holding in *Brulotte* that a royalty payment extending beyond the life of a licensed patent is illegal *per se*. BioTime supports a rule of reason approach to payments in license agreements, which is consistent with the Court's recent precedents.

Respectfully submitted,

Robert H. Stier, Jr.
Counsel of Record
William L. Worden
Daniel A. Lev
PIERCE ATWOOD LLP
100 Summer Street
Suite 2250
Boston, MA 02110
(617) 488-8000
rstier@PierceAtwood.com

Counsel for Amicus Curiae
BioTime, Inc.

February 4, 2015

AMICUS CURIAE BRIEF

No. 13-720

Supreme Court, U.S.
FILED
FEB - 4 2015
OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

STEPHEN KIMBLE, *et al.*,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF *AMICI CURIAE* CENTER FOR INTELLECTUAL PROPERTY RESEARCH OF THE INDIANA UNIVERSITY MAURER SCHOOL OF LAW AND OTHER SCHOLARS IN SUPPORT OF PETITIONERS

MARK D. JANIS
Counsel of Record
CENTER FOR INTELLECTUAL PROPERTY RESEARCH
INDIANA UNIVERSITY MAURER SCHOOL OF LAW
211 S. Indiana Ave.
Bloomington, IN 47405
(812) 855-1205
mdjanis@indiana.edu

Counsel for Amici Curiae

257643

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

Library of Congress
Law Library

TABLE OF CONTENTS

Page

TABLE OF CONTENTS.....i

TABLE OF CITED AUTHORITIES iii

STATEMENT OF INTEREST OF *AMICI* 1

SUMMARY OF ARGUMENT.....1

ARGUMENT.....2

I. *BRULOTTE* DISCOURAGES COMMERCIALIZATION AND DISCLOSURE OF INVENTIONS.....2

II. *BRULOTTE* IS INCONSISTENT WITH BOTH PATENT MISUSE DOCTRINE AND THE COURT'S CURRENT ANTITRUST JURISPRUDENCE ON PER SE RULES.....7

A. The Use of a Post-Expiration Royalty Obligation Alone Cannot Constitute Patent Misuse 7

B. Under the Court's Current Jurisprudence, Per Se Rules Must be Justified by Economic Analysis.....9

C. The Only Articulated Bases of *Brulotte* Have Been Eliminated by Subsequent Decisions of Congress and this Court.....12

Table of Contents

Page

D. *Brulotte* Was an Unexplained Departure from Existing Law 15

III. OBLIGATIONS TO PAY POST-EXPIRATION ROYALTIES SHOULD BE FOUND ENFORCEABLE ABSENT CLEAR EVIDENCE OF ANTI-COMPETITIVE COERCION OR FRAUD.....17

CONCLUSION 20

APPENDIX.....1a

TABLE OF CITED AUTHORITIES

Page

Cases

Albrecht v. Herald Co.,
390 U.S. 145 (1968) 10, 11

Ar-Tik Systems, Inc. v. Dairy Queen, Inc.,
302 F.2d 496 (3d Cir. 1962) 16

Aronson v. Quick Point Pencil Co.,
440 U.S. 257 (1979) 6

Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.,
339 U.S. 827 (1950) 3, 15, 16

Blonder-Tongue Lab. v. University of Illinois Found.,
402 U.S. 313 (1971) 7

Brulotte v. Thys Co.,
379 U.S. 29 (1964) ..... *passim*

Continental T.V. v. GTE Sylvania,
433 U.S. 36 (1977) 9, 10, 15

Ethyl Gasoline Corp. v. United States,
309 U.S. 436 (1940) 13

F.T.C. v. Actavis, Inc.,
570 U.S. –, 133 S. Ct. 2223 (2013) 19

Cited Authorities

Page

Illinois Tool Works, Inc. v. Independent Ink, Inc., 547 U.S. 28 (2006) 5, 12-13, 14, 18

International Salt Co. v. United States, 332 U.S. 392 (1947) 15

Jefferson Parish Hospital District No. 2 v. Hyde, 466 U.S. 2 (1984) 12, 15, 18

Leegin Creative Leather Products v. PSKS, 551 U.S. 877 (2007) 6-7, 9

Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944) 13, 14

National Soc. of Professional Engineers v. U.S., 435 U.S. 679 (1978) 11-12

State Oil Co. v. Khan, 522 U.S. 3 (1997). 10, 12, 13

Thys Co. v. Brulotte, 382 P.2d 271 (Wash. 1963) 17

U.S. v. Arnold, Schwinn & Co., 388 U.S. 365 (1967) 10, 11, 15

United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933) 5

Cited Authorities

Page

Windsurfing International, Inc. v. AMF, Inc., 782 F.2d 995 (Fed. Cir. 1986) 10

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969).....17, 18

Statutes and Other Authorities

United States Constitution, Art. 1, § 8.....2

35 U.S.C. § 271(d)(5) 14, 18

Arti Rai *et al.*, *Patent Reform: Unleashing Innovation, Promoting Economic Growth & Producing High-Paying Jobs*, Department of Commerce (Apr. 13, 2010).....2

Christine Varney, *Promoting Innovation Through Patent and Antitrust Law and Policy*, Department of Justice (May 26, 2010) 2

Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*.....11

Eric E. Bensen, 8 *Patent Law Perspectives* § 8.15[a] (2014) ..... .13

Cited Authorities

Page

Eric E. Bensen, 8 *Patent Law Perspectives* § 18.15[a] (2014) 8

Harold See and Frank M. Caprio, *The Trouble with* Brulotte: *The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813 13

Herbert Hovenkamp, *et al.*, I IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law § 23.2b (2d Ed.) ... *passim*

John W. Schlicher, 2 *Patent Law, Legal and Economic Principles* § 13:192 (2d ed. 2004).....13

Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599 (1990) 12

Raymond T. Nimmer and Jeff Dodd, *Modern Licensing Law* § 13:31 (2012).....13

Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers 283 (1997).....3, 11

Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives To Innovate After MedImmune*, 24 Berkeley Tech. L.J. 971 (2009) 6

Cited Authorities

Page

Roger M. Milgrim & Eric E. Bensen, 1 *Milgrim on Licensing* § 2.28 (2014) 5

Roger M. Milgrim & Eric E. Bensen, 3 *Milgrim on Licensing* § 18.05 (2013) 5

U.S. Dept. of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 12 (2007) 11, 20

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marquette Intell. Prop. L. Rev. 1 (2011) 6

William E. Kovacic & Carl Shapiro, *Antitrust Policy: A Century of Economic and Legal Thinking*, 14 J. of Econ. Perspectives 43 (2000) 9

STATEMENT OF INTEREST OF *AMICI* [1]

Amicus curiae is the Center for Intellectual Property Research of the Indiana University Maurer School of Law (the "Center"), joined by a number of other scholars whose names appear in the Appendix. Neither the Center nor Indiana University has any interest in the outcome of this matter. However, the Center, as a part of its mission, has a strong interest in seeing the patent law develop in a consistent and positive way.

SUMMARY OF ARGUMENT

This Court's decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), holding that post-expiration royalties in patent licenses are "unlawful per se," should be abrogated. The *Brulotte* rule condemns many pro-competitive royalty arrangements, thus frustrating the public interest in commercializing inventions. The *Brulotte* rule also is out of step with this Court's current economics-based jurisprudence of patent misuse and patent/antitrust. The rule reflects an assumption that a license provision extending royalties beyond the expiration of the licensed patent must necessarily extend the power of the patent. This assumption is economically unsound.

---

1. No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amici*, or their counsel, made a monetary contribution intended to fund its preparation or submission. The parties have been given at least ten days' notice of *amici*'s intention to file this brief and both have consented by email. Such consents are being submitted herewith.

In place of the *Brulotte* rule, this Court should hold that post-expiration royalty arrangements are lawful, except in the rare case in which there is clear evidence that the obligation was the result of anti-competitive coercion or fraud. As to those rare cases, this Court's existing jurisprudence provides adequate general guidance, and this Court should leave to the lower courts the task of defining the parameters of the exception as appropriate cases arise.

ARGUMENT

I. *BRULOTTE* DISCOURAGES COMMERCIALIZATION AND DISCLOSURE OF INVENTIONS.

According to a recent Department of Commerce study, "factors linked to innovation are responsible for almost three-quarters of the Nation's post-WW II growth rate." Arti Rai *et al.*, *Patent Reform: Unleashing Innovation, Promoting Economic Growth & Producing High-Paying Jobs,* Department of Commerce (Apr. 13, 2010).[2] The patent system fosters this innovation by providing a limited period of exclusivity for inventors to make, use and sell their inventions in exchange for disclosure of information needed to make the inventions after the period of exclusivity has expired. *United States Constitution*, Art. 1, Sec. 8; Christine Varney, *Promoting Innovation Through Patent and Antitrust Law and Policy*, Department of Justice (May 26, 2010).[3]

---

2. http://www.commerce.gov/sites/default/files/documents/migrated/Patent_Reform-paper.pdf

3. http://www.justice.gov/atr/public/speeches/260101.htm

In the 50 years since this Court's decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (*"Brulotte"*), products covered by patents and other forms of intellectual property have "become increasingly important as a determinant of U.S. industrial progress." Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers 283 (1997).[4] As a result, "[t]echnology licensing and related partnerships are essential in today's economy to remain globally competitive and to market the products that knowledge assets help to create." *Id.* at 283-84.

The rule established in *Brulotte* hinders the innovation needed to make our economy vibrant in an important way not recognized in 1964: the rule discourages flexible licensing agreements needed for commercialization of inventions. This Court has long recognized the unquestioned ability of a patent owner to license others to exploit the invention in exchange for a "fixed sum for the privilege to use the patents." *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.*, 339 U.S. 827, 833 (1950). While there are numerous ways in which a licensor and licenseemight structure the payment of that sum, the *Brulotte* rule privileges a very few while forbidding all others, without economic justification.

For example, suppose a licensee has agreed to pay a fixed sum of $1 million for use of a patent over its remaining term. If the licensee pays the $1 million during the patent term, the *Brulotte* rule is satisfied. By contrast, if the licensee is unable to muster the $1 million fixed sum all at once, the parties might prefer to have

4. http://faculty.haas.berkeley.edu/shapiro/ninenono.pdf

the licensee sign a promissory note agreeing to pay $1 million, plus interest, over a period that extends beyond the expiration of the patent and is based on sales of the licensed product. However, "*Brulotte*'s per se rule limits the ability of patentees to amortize over longer periods than the remaining life of the patent, even when such an arrangement is in the interest of the licensee." Herbert Hovenkamp, *et al.*, I IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law § 23.2b (2d Ed.).

Moreover, the *Brulotte* rule forbids numerous alternative approaches that might be economically optimal for the licensor and licensee. For example, suppose a patentee offers a license for a royalty of 10% of sales per year for the remaining 10 years of the patent. In response, the offeree, out of a concern for cash flow, proposes 5% for 20 years, which the patentee accepts. Under *Brulotte's* per se rule, the Court would deem the patentee to have leveraged its patent in a manner that expanded the patent's scope whereas, in fact and as an economic proposition, it was the licensee who leveraged his willingness to enter into a license to obtain more favorable royalty terms. To penalize the patentee for accepting the best terms it could get for a license to its patent both imposes an undue hardship on the individual patentee and discourages optimizing economic returns for inventive activity. Indeed, doing so is contrary to a fundamental principle that *Brulotte* recognizes: a "patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that [patent-afforded] monopoly."[5]

5. *Brulotte*, 379 U.S. at 32. Regrettably, *Brulotte* launched its analysis by erroneously equating patents with monopolies. A

Consider a further example premised on the observation that "[b]oth licensor and licensee may be better served by an arrangement in which the royalty rate is low but the term of royalty extended. The low royalty rate might help the licensee in the early investment phase and thereby encourage it to take the risks to launch new, and thus inherently risk-prone, technology." Roger M. Milgrim & Eric E. Bensen, 3 Milgrim on Licensing §18.05 (2013). Suppose a potential licensee of a patent having limited remaining life decides to build its business quickly through expensive promotion, hoping customers will remain loyal to it after the patent expires. To be able to afford the promotion expense, the potential licensee proposes to pay the licensor reduced royalties on sales before the patent's expiration in exchange for continued royalties thereafter, seeing the post-expiration sales

---

patent affords statutory exclusivity for the invention claimed, not a "monopoly." *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186-7 (1933) ("The term monopoly connotes the giving of an exclusive privilege . which the public freely enjoyed prior to the grant. Thus a monopoly takes something from the people. An inventor deprives the public of nothing which it enjoyed before the discovery, but gives something of value to the community by adding to the sum of human knowledge. . . . upon [patent expiration], the knowledge of the invention inures to the people . . .". *See also* Roger M. Milgrim & Eric E. Bensen, 1 Milgrim on Licensing § 2.28 (2014) ("The mischief in the use of [the term 'monopoly'] to describe the *statutory exclusivity* a patent confers, is that the term 'monopoly' carries antirust connotations that are usually not properly applicable to these exclusive rights.") (emphasis in original). Unfortunately, notwithstanding *Dubilier*'s teaching, many courts continued to treat patents as monopolies, generating dubious rules that this Court has more recently begun to correct. *See, e.g., Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 31 (2006) (discarding the presumption that patents confer market power).

as resulting from activities during the patent term. *Cf. Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) (royalties payable after product is in the public domain are equivalent to "other costs involved in being the first to introduce a new product to the market.") This and innumerable similar examples of flexible royalty arrangements are precluded by *Brulotte* even if they could lead to increased commercialization of inventions because the *Brulotte* Court was "unable to conjecture" any legitimate reason for extending royalties beyond a patent's expiration. *Brulotte*, 379 U.S. at 32.

By precluding flexible licensing arrangements, even if suggested by and advantageous to the licensee, *Brulotte* "causes affirmative social harm" because it "unduly restricts access and exploitation of the patented invention, producing unjustified inefficiencies." Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marquette Intell. Prop. L. Rev. 1, 43 (2011). *Accord* Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives To Innovate After MedImmune*, 24 Berkeley Tech. L.J. 971, 973 (2009) (contending that *Brulotte* is "out of step with current economic understanding and business practices" and noting that "[r]ules that give licensing parties greater flexibility to structure their arrangements can make licensing more efficient, improve public access to new technologies, and enhance incentives to innovate.")

The *Brulotte* decision has adverse effects on innovation that the Court did not anticipate. For that reason alone, the Court should overrule its *Brulotte* decision, allowing courts to consider the pro-competitive benefits of flexible licensing agreements that *Brulotte* prohibits. *Leegin Creative Leather Products v. PSKS*, 551 U.S. 877, 894

(2007) (per se rule overruled because it "would proscribe a significant amount of procompetitive conduct.")

II. *BRULOTTE* IS INCONSISTENT WITH BOTH PATENT MISUSE DOCTRINE AND THE COURT'S CURRENT ANTITRUST JURISPRUDENCE ON PER SE RULES.

A. The Use of a Post-Expiration Royalty Obligation Alone Cannot Constitute Patent Misuse

Contrary to the reasoning of *Brulotte*, the mere use of a post-expiration royalty obligation alone cannot constitute patent misuse. Misuse of a patent is the broadening of the "physical or temporal scope" of a patent. *Blonder-Tongue Lab. v. University of Illinois Found.*, 402 U.S. 313, 333-344 (1971). A post-expiration royalty obligation does not extend the "temporal scope" of a licensed patent. The patent still expires when it was scheduled to expire, and when it does, everyone (other than the licensee) is free to exploit the patented invention without paying the patentee. Absent other barriers to entry, the use of a post-expiration royalty obligation does not interfere with the public interest. Rather, it is one mechanism that the parties to a license can use to express their estimate of the value of the licensed patent during its enforceable term, similar to other mechanisms such as the choice of royalty rates or the choice of a date on which royalty payments should commence.[6]

---

6. Specifically, a post-expiration royalty obligation can serve as a mechanism for shifting pre-expiration royalty payments to a later time. Those royalties, even if paid after patent expiration, are still based on the parties' views of the pre-expiration value of the patent.

Moreover, a post-expiration royalty obligation does not even subject *the licensee* to extended remedies under the Patent Act. After the patent expires, if the licensee breaches an obligation to pay royalties, the licensor's only remedy is at state law for breach of contract, not under the Patent Act for infringement.[7] As one commentator has observed:

> A post-expiration royalty obligation is considered misuse of the patent because, the theory goes, it extends the temporal scope of the patent beyond that which was granted by the government. In essence, *Brulotte* reaches that result by equating a post-expiration obligation to pay a *royalty* with a post-expiration right to enforce the *patent*. However, were the licensee to cease royalty payments after the expiration of the patent, the patentee's claim would be for *breach* of the license agreement, not *infringement* of the patent. Thus, even in the absence of *Brulotte's* per se prohibition, a post-expiration royalty obligation would not extend the patentee's rights under the Patent Act.

Eric E. Bensen, 8 *Patent Law Perspectives* § 18.5[a] (2014).

---

7. For example, consider the remedies that would have been available to the present licensor, Kimble, before and after patent expiration. Had Marvel materially breached the agreement during the patent's term, Kimble would have had both a statutory cause of action for infringement (for sales after the termination of the license agreement) and a contract cause for nonpayment (of royalties that accrued before the termination of the agreement). However, after the patent's expiration, Kimble's remedial recourse would have been limited to a claim for breach of contract.

Brulotte's per se rule reflects a faulty assumption that a royalty obligation extending beyond the life of a patent must necessarily extend the temporal scope of that patent contrary to the public interest. This is an erroneous conception of patent misuse. For this reason alone, this Court should discard the *Brulotte* rule.

B. Under the Court's Current Jurisprudence, Per Se Rules Must be Justified by Economic Analysis.

It is not surprising that *Brulotte* ignored the adverse effects on innovation and the disclosure of inventions caused by its rule of per se illegality, nor is it surprising that *Brulotte* adopted a rule that fails to align with core conceptions of patent misuse. The decision was reached in an era in which this Court's jurisprudence in antitrust and related cases reflected "a search for ways to simplify the government's burden of proof." William E. Kovacic & Carl Shapiro, *Antitrust Policy: A Century of Economic and Legal Thinking*, 14 J. of Econ. Perspectives 43, 49 (2000). Many of those decisions, like *Brulotte*, imposed rules of per se illegality without any consideration of economic effects.

Under what this Court has called its "current jurisprudence," per se rules "must be based on demonstrable economic effect rather than . . . upon formalistic line drawing." *Leegin Creative Leather Products v. PSKS*, 551 U.S. 877, 887 (2007), quoting *Continental T.V. v. GTE Sylvania*, 433 U.S. 36, 58-59 (1977). Consequently, "few decisions of [the *Brulotte*] era command praise today." Kovacic and Shapiro, *supra*, at 51. In fact, most of the *per se* decisions of the *Brulotte* era have been overruled.

For example, in *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365, 380 (1967), decided three years after *Brulotte*, the Court declared restrictions on a dealer's territories illegal per se on the authority of "the ancient rule against restraints on alienation." In 1977 the Court overruled *Schwinn*, however, noting that "an antitrust policy divorced from market considerations would lack any objective benchmark." *Continental T.V. v. GTE Sylvania*, 433 U.S. 36, 53 n.21 (1977). In rejecting per se condemnations of vertical territorial restrictions, the Court took account of "substantial scholarly and judicial authority supporting their economic utility." 433 U.S. at 57-58.

In 1997, the Court overruled *Albrecht v. Herald Co.*, 390 U.S. 145 (1968), decided four years after *Brulotte*. *State Oil Co. v. Khan*, 522 U.S. 3 (1997). The Court found "insufficient economic justification for per se invalidation of vertical maximum price fixing" and considered "the substantial criticism the decision has received." 522 U.S. at 18.

In the fifty years since *Brulotte*, this Court's changing method of analysis has also led antitrust enforcement authorities to change their views on the illegality of a variety of activities once thought to be illegal per se. That change has been especially pronounced with respect to licensing of patents and other forms of intellectual property. *See Windsurfing International, Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) ("Recent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive," citing, *inter alia, GTE Sylvania.*)

In the early 1970's, following on the heels of *Brulotte, Schwinn and Albrecht*, the Antitrust Division of the Department of Justice announced nine licensing practices, apparently considered illegal *per se*, which became known as the "nine no no's." Richard Gilbert and Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers 283, 285-86 and n.8 (1997).[8]

Reflecting the major evolution in the Court's approach to per se rules, in 1995, the Department of Justice and Federal Trade Commission issued *Antitrust Guidelines for the Licensing of Intellectual Property* ("Licensing Guidelines").[9] These Licensing Guidelines rejected the per se approach of the Nine No No's "because licensing often has significant efficiency benefits." Gilbert & Shapiro, *supra*, at 287.[10] This approach was then followed in the 2007 Report that abandoned per se treatment of post-expiration royalties required by *Brulotte* because "[c]ollecting royalties beyond a patent's statutory term can be efficient." U.S. Dept. of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 12 (2007).

As this Court has recognized, the broad provisions of the Sherman Act are given shape "by drawing on common law tradition." *National Soc. of Professional Engineers*

---

8. http://faculty.haas.berkeley.edu/shapiro/ninenono.pdf

9. http://www.justice.gov/atr/public/guidelines/0558.htm

10. Prof. Gilbert led the task force that drafted the Licensing Guidelines. Gilbert & Shapiro, *supra*, at 283.

v. U.S., 435 U.S. 679, 688 (1978).[11] Consequently, when resolving issues arising under the antitrust laws, this Court has an interest "in recognizing and adapting to changed circumstances and the lessons of accumulated experience." *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997). Because of that accumulating experience, the Court's methods of analyzing antitrust issues are different than they were when *Brulotte* was decided. Per se rules can no longer be justified without "demonstrable economic effect rather than . . . upon formalistic line drawing." *Leegin, supra*, 551 U.S. at 88. *Brulotte* made no effort to determine the economic consequences of its ruling, Hovenkamp, et al., *supra*, at § 23a (observing that the *Brulotte* Court did not attempt to analyze anticompetitive effects), and it is doubtful that any anticompetitive effects existed, because once the patents expired, "other manufacturers would be free to duplicate the patented technology without obligation to the patentee." *Id.* That alone warrants a rejection of the rigid per se treatment of post expiration royalties that *Brulotte* requires.

C. The Only Articulated Bases of *Brulotte* Have Been Eliminated by Subsequent Decisions of Congress and this Court.

The Court has overruled per se rules from the *Brulotte* era "when the theoretical underpinnings of those decisions are called into serious question." *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 42

---

11. The principles underlying patent misuse are similarly derived from the common law. Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1608 (1990).

n.3 (2006), quoting *State Oil Co. v. Khan*, 522 U.S. 3, 21 (1997). Recent decisions of Congress and this Court have eliminated any basis for the *Brulotte* decision under its articulated rationale.

The *Brulotte* Court found the required payment of royalties after the expiration of the patent to be "analogous to an effort to enlarge the monopoly of the patent by [tying] the sale or use of the patented article to the purchase or use of unpatented ones. *See Ethyl Gasoline Corp. v. United States*, 309 U.S. 436; *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 664-665, and cases cited." *Brulotte*, 379 U.S. at 179. Leaving aside the inappropriateness of the analogy,[12] the cases cited did hold that tying arrangements involving patents were illegal per se based on the presumption that all patents, no matter what their claims covered, created a "monopoly." *Ethyl Gasoline*, at 456 ("The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or

---

12. *Brulotte's* conclusion that requiring payment of royalties in the post-expiration period is analogous to tying agreements (379 U.S. at 179-80) is wrong as a matter of law and economics, a fact on which economists and commentators agree. *See, e.g.*, Harold See and Frank M. Caprio, *The Trouble with* Brulotte: *The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 847 ("In no way, however, can the patent monopoly be extended beyond its term by the use of a royalty."); John W. Schlicher, 2 Patent Law, Legal and Economic Principles §13:192 (2d ed. 2004) ("The use of the longer royalty term does not permit the patent owner to turn a patent with a 20 year term into a patent with a 30 year term .... The market power existing during the term patent can be exploited only once."); Raymond T. Nimmer and Jeff Dodd, Modern Licensing Law § 13:31 (2012) (post-expiration royalties do not "expand the claims or the scope of the patent."); Eric E. Bensen, 8 Patent Law Perspectives §8.15[a](2014).

selling his invention.); *Mercoid*, at 666 ("The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly.")

The presumption that a patent inevitably creates a monopoly "has its foundations in the judicially created patent misuse doctrine." *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 31 (2006) (analyzing a requirement that unpatented products be purchased as a condition for purchasing patented products). In 1988, Congress eliminated the presumption that a patent necessarily creates a monopoly in the context of claims for patent misuse based on allegations of tying involving a patent. *Id.* at 39; 35 U.S.C. §271(d)(5).

In *Illinois Tool*, this Court reviewed its cases holding that a patent necessarily makes tying illegal when patents are involved. Recognizing the "vast majority of academic literature on the subject" and the action of Congress in the misuse context, the Court overruled all prior decisions holding that patents inevitably create the market power necessary to make a tie involving patents illegal per se. *Id.* at 43 and n. 4. As a result, a claim of tying involving a patent "must be supported by proof of power in the relevant market rather than by a mere presumption thereof." *Id.*

The enactment of 35 U.S.C. §271(d)(5) and the decision in *Illinois Tool Works* have eliminated the express underpinnings of the *Brulotte* rule. Patents are no longer presumed to create monopoly power. The elimination of the presumption on which the *per se* rule of *Brulotte* was based is sufficient justification for rejection of that rule. *Illinois Tool Works Inc.* 547 U.S. at 42 n.3.

D. *Brulotte* Was an Unexplained Departure from Existing Law.

Stare decisis is, of course, always a consideration when this Court is asked to overrule one of it precedents. But *stare decisis* is less an impediment to overruling an erroneous decision that itself was "an abrupt and largely unexplained departure from" existing law. *GTE Sylvania*, 433 U.S. at 47 (overruling the decision in *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), decided three years after *Brulotte*, holding that restrictions on sales territories are illegal per se). The *Brulotte* decision was an unexplained departure from existing law.

Brulotte holds that requiring a licensee to pay royalties on products not covered by a patent constitutes "projection of the patent monopoly." *Brulotte*, 379 U.S. at 32. That conclusion was inexplicably contrary to this Court's decision in *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.*, 339 U.S. 827 (1950).

In *Hazeltine*, a patent licensee argued that an agreement requiring "payment on unpatented goods" during the term of the patent constituted patent misuse. *Hazeltine*, 339 U.S. at 832. The licensee argued that the agreement was "identical in principle" to "'Tie-in' cases" in which a licensor requires the licensee to purchase unpatented goods from the licensor. *Id.* Tie-ins are condemned because they foreclose at least a portion of the market to competitors of the patent owner and "competition on the merits in the market for the tied item is restrained . . ." *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 12 (1984); *International Salt Co.v. United States*, 332 U.S. 392, 396 (1947).

The *Hazeltine* Court expressly rejected the claimed analogy, holding that the required payment of money for selling unpatented goods "does **not** create another monopoly." 339 U.S. at 833 (emphasis added). Relying on this conclusion, the Court held that requiring the payment of royalties on all sales, whether covered by the patent or not, is "not per se a misuse of patents . . . ." *Hazeltine*, 339 U.S. at 834. Justices Douglas and Black dissented from this decision.

The *Brulotte* decision was written by Justice Douglas, who essentially adopted his dissenting views in *Hazeltine*. Without rejecting the logic of *Hazeltine* that requiring royalties on unpatented products **cannot** "create another monopoly" (339 U.S. at 833), the *Brulotte* Court simply "decline[d] the invitation to extend it so as to project the patent monopoly beyond the 17-year period." 379 U.S. at 33. The Court provided no basis for its conclusion that requiring royalties on unpatented products after a patent's expiration has a different effect from requiring royalties on unpatented products before that expiration. Instead, the Court's decision relied on the analogy to tying cases that the *Hazeltine* majority had expressly rejected. *Id.*

The decision in *Brulotte* that an agreement to pay royalties after a patent has expired is "unlawful per se" (379 U.S. at 32) was also an abrupt departure from the views of leading scholars at the time. Patent and licensing treatises, relying on existing cases, concluded that "an agreement to pay royalties after a patent has expired may be valid and binding." *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F.2d 496, 506 (3d Cir. 1962). The Supreme Court of Washington, in the decision reversed in *Brulotte*, had expressly taken note of those authorities and the

cases on which they relied. *Thys Co. v. Brulotte*, 382 P.2d 271, 290-91 (Wash. 1963). In reversing, this Court gave no attention to the treatises or the cases.

III. OBLIGATIONS TO PAY POST-EXPIRATION ROYALTIES SHOULD BE FOUND ENFORCEABLE ABSENT CLEAR EVIDENCE OF ANTI-COMPETITIVE COERCION OR FRAUD.

In place of the *Brulotte* rule, the Court should hold that post-expiration royalty obligations are lawful, except in the rare case in which there is clear evidence that the obligation was the result of anti-competitive coercion or fraud. In those exceptional cases, the courts may find it helpful to apply the rule of reason, Hovenkamp, *et al.* at § 23.2a (text at note 36), albeit with the caveat that courts should not permit the analysis to devolve into merely a new version of the *Brulotte* prohibition.

Fortunately, the Court need not look much beyond its own characterizations of *Brulotte* for guidance on addressing the exceptional cases. In *Zenith Radio Corp. v. Hazeltine Research, Inc.* 395 U.S. 100 (1969), decided four years after *Brulotte*, the Court considered whether requiring royalties on unpatented products during a patent term should be illegal per se. The Court characterized *Brulotte* as articulating the "principle that a patentee may not use the power of his patent to levy a charge for making, using, or selling products not within the reach of the monopoly granted by Congress." *Id.* at 136-37. In determining whether the patentee had used the "power of his patent" to enact an unjustified royalty, the Court concluded that the relevant consideration is

whether the licensor "used its patent leverage to coerce a promise to pay royalties on [products] not practicing the learning of the patent." *Id.* at 138. On the other hand, "[i]f convenience of the parties rather than patent power dictates the [challenged] royalty provision, there are no misuse of the patents and no forbidden conditions attached to the license." *Id.* at 138.

Zenith Radio, understood through the lens of this Court's more recent cases, provides some guidelines to courts confronting cases in which a licensee challenges post-expiration royalty obligations on the basis of coercion. First, the challenger must show that the licensor had market power in the licensed patent. Coercion in the economic context requires "some special ability—usually called 'market power'—to force a purchaser to do something that he would not do in a competitive market." *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 14-15 (1984). This Court has now made clear that not all patents create market power. *Illinois Tool Works Inc.*, 547 U.S. at 28; *see also* 35 U.S.C. §271(d)(5) (imposing a market power requirement). If there is no showing of market power, the inquiry should end.

Second, even if the challenger succeeds in showing market power, the challenger must show that the anti-competitive effects of the challenged royalty provision outweigh its pro-competitive benefits. This will be a difficult showing to make. In fact, the higher the market power of the patent, the higher the value of obtaining a license during its term and the more likely the licensee may desire to spread its royalty obligations over a longer period of time. For example, if the licensee requested the post-termination royalties, the courts should have no

difficulty upholding the royalty obligation under the rule of reason, even if the licensor has market power. Even where the licensee claims to have resisted the post-expiration royalty provision, and uses this fact as a basis for arguing coercion, the court must still find evidence that the harms to competition outweigh the benefits. A bare argument of coercion-in-fact should not suffice.

In rare cases, it may be necessary to scrutinize the size and nature of the royalty payments more closely. In the case of payments after a patent's expiration, those payments may well represent a permissible amortization of the amount for obtaining access to the patent during its term. *See* Hovenkamp, *et al.* at § 23.2b. If the post-expiration payments are for pre-termination rights, the total amount of payments, including those after expiration, should not be grossly out of line with the total value of the patent during its term. On the other hand, total payments so unrelated to the value of the right to exclude they cannot be explained as an amortization of in-term royalties for a patent conveying significant market power may be some evidence that the post-expiration payments were coerced. *Cf. F.T.C. v. Actavis, Inc.*, 570 U.S. –, 133 S.Ct. 2223 (2013) (assessing the potential anti-competitive effects of reverse payments from patent owners to alleged infringers by taking into account numerous factors, including the size of the payment).

CONCLUSION

In sum, this Court should discard the *Brulotte* rule. The rule does not serve the public interest; it frustrates many pro-competitive licensing arrangements. The rule "limits the ability of patentees to amortize over longer periods than the remaining life of the patent, even when such an arrangement is in the interest of the licensee." Hovenkamp, *et al.* at § 23.2b. *Brulotte* simply failed to recognize that "[c]ollecting royalties beyond a patent's statutory term can be efficient." U.S. Dept. of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 12 (2007).

In place of the *Brulotte* rule, this Court should hold that post-expiration royalty arrangements are ordinarily lawful unless there is clear evidence of anti-competitive coercion or fraud. It should be left to the lower courts to delineate the rare scenarios in which this occurs.

Respectfully submitted,

MARK D. JANIS
Counsel of Record
CENTER FOR INTELLECTUAL PROPERTY RESEARCH
INDIANA UNIVERSITY MAURER SCHOOL OF LAW
211 S. Indiana Ave.
Bloomington, IN 47405
(812) 855-1205
mdjanis@indiana.edu

Counsel for Amici Curiae

APPENDIX

APPENDIX

Eric E. Bensen, New York City, NY (co-author: Milgrim on Licensing; Milgrim on Trade Secrets; Patent Licensing Transactions; Patent Law Perspectives).

Michael A. Carrier, Distinguished Professor of Law, Rutgers University School of Law (Camden).

Vincent Chiappetta, Professor of Law, Willamette University College of Law.

Thomas F. Cotter, Briggs and Morgan Professor of Law, University of Minnesota Law School.

Jorge Contreras, Associate Professor of Law, University of Utah College of Law.

Rochelle C. Dreyfuss, Pauline Newman Professor of Law, New York University School of Law.

Jason J. Du Mont, Microsoft IP Fellow, Indiana University Maurer School of Law.

Norman J. Hedges, Associate Clinical Professor of Law, Indiana University Maurer School of Law.

Timothy R. Holbrook, Associate Dean of Faculty, Professor of Law, Emory Law School.

Marshall Leaffer, Distinguished Scholar in Intellectual Property Law and University Fellow, Indiana University Maurer School of Law.

Appendix

Michael Mattioli, Associate Professor of Law, Indiana University Maurer School of Law.

Roger M. Milgrim, Easton, PA (author: Milgrim's Guide to IP Licensing; co-author: Milgrim on Licensing; Milgrim on Trade Secrets)

Raymond T. Nimmer, Leonard Childs Professor of Law and Co-Director of Houston Intellectual Property and Information Institution, University of Houston Law Center; Distinguished Chair in Residence, Universidad Catholica, Lisbon, Portugal.

Harold See, Professor of Law, Belmont University College of Law.

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
FEB 4 - 2015
OFFICE OF THE CLERK

No. 13-720

In The Supreme Court of the United States

STEPHEN KIMBLE and
ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF AMICI CURIAE PROFESSOR ROBIN FELDMAN, PROFESSOR ALICE ARMITAGE, AND THE U.C. HASTINGS INSTITUTE FOR INNOVATION LAW ON BEHALF OF NEITHER PARTY

ROBIN FELDMAN
Counsel of Record
ALICE ARMITAGE
UNIVERSITY OF CALIFORNIA
HASTINGS COLLEGE OF THE LAW
200 McAllister Street
San Francisco, California 94102
(415) 565-4661
feldmanr@uchastings.edu

Counsel for Amici Curiae

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

TABLE OF CONTENTS

Page

INTEREST OF THE *AMICI CURIAE* 1

SUMMARY OF ARGUMENT 2

ARGUMENT 8

I. PATENT MISUSE, AS CONSISTENTLY HELD BY THIS COURT, SHOULD BE DECIDED UNDER PATENT LAW PRINCIPLES RATHER THAN ANTITRUST. FOR NEARLY THREE DECADES, HOWEVER, LOWER COURTS HAVE REPEATEDLY MOVED TO CONFORM PATENT MISUSE TO ANTITRUST PRINCIPLES – DESPITE CONTRARY AUTHORITY FROM CONGRESS AND THIS COURT 8

A. THE FEDERAL CIRCUIT, IGNORING PRECEDENT, INSERTS ANTITRUST PRINCIPLES INTO THE DOCTRINE OF PATENT MISUSE 10

B. CONGRESSIONAL ACTION IN THIS SPACE DOES NOT SUPPORT FEDERAL CIRCUIT DECISIONS 13

C. THE DANGERS OF FOLLOWING THE FEDERAL CIRCUIT'S LEAD 14

II. PATENT LAW IS NOT ANTITRUST; ANTITRUST LAW FOCUSES ON COMPANIES WITH MARKET POWER; PATENT LAWS GENERALLY APPLY TO ALL PATENT HOLDERS – REGARDLESS OF WHETHER THEY HAVE MARKET POWER 19

TABLE OF CONTENTS – Continued

Page

III. SIMILAR TO THIS COURT'S REFUSAL TO APPLY ANTITRUST PRINCIPLES IN *OCTANE*, THIS COURT SHOULD RECTIFY LOWER COURTS' THINKING BY UPHOLDING *BRULOTTE* WHILE REMOVING THE TAINT OF ANTITRUST-LIKE *PER SE* LANGUAGE IN *BRULOTTE* AND REAFFIRMING A PREFERENCE FOR A FLEXIBLE TEST APPLYING PATENT PRINCIPLES 24

IV. CONTRACTS SHOULD NOT PROVIDE AN END RUN AROUND PATENT LAW 28

CONCLUSION 30

TABLE OF AUTHORITIES

Page

CASES

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979) 7, 26

B. Braun Med., Inc. v. Abbott Labs., 124 F.3d 1419 (Fed. Cir. 1997) 16

Blonder-Tongue Labs. v. Univ. of Ill. Found., 402 U.S. 313 (1971) 8, 9, 10, 11

Board of Trade v. United States, 246 U.S. 231 (1918) 14

Brulotte v. Thys Co., 379 U.S. 29 (1964) ..... *passim*

Carbice Corp. of Am. v. Am. Patents Dev. Corp., 283 U.S. 27 (1931) 8, 9

Chickasaw Nation v. United States, 534 U.S. 84 (2001) 14

Cont'l T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977) 4, 15

Ill. Tool Works, Inc. v. Indep. Ink, Inc., 547 U.S. 28 (2006) 8, 9, 22, 28

Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2 (1984) 15

Kimble v. Marvel Enterprises, Inc., 727 F.3d 856 (2013) 3

Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938) 8

Lexmark Int'l, Inc. v. Ink Techs. Printer Supplies, LLC, 2014 WL 1276133 (S.D. Ohio 2014) 12

TABLE OF AUTHORITIES - Continued

Page

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992) 11, 12, 16

Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944) 6, 29

Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942) 8, 9

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917) 9

Northern Pac. Ry. Co. v. United States, 356 U.S. 1 (1958) 15

Octane Fitness, LLC v. ICON Health & Fitness, Inc., 132 S. Ct. 1749 (2014) 25

Princo Corp. v. Int'l Trade Comm'n, 616 F.3d 1318 (Fed. Cir. 2010), *cert. denied*, 131 S. Ct. 2480 (2011) 12

Quanta Computer, Inc. v. LG Elecs., Inc., 553 U.S. 617 (2008) 12, 17, 18

Senza-Gel Corp. v. Seiffhart, 803 F.2d 661 (Fed. Cir. 1986) 11

Standard Oil Co. v. United States, 221 U.S. 1 (1911) 19

Static Control Components, Inc. v. Lexmark Int'l, Inc., 615 F. Supp. 2d 575 (E.D. Ky. 2009) 12

Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc., No. 13-854 S. Ct. Jan. 20, 2015) 20

TABLE OF AUTHORITIES – Continued

Page

Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) 9

United States v. Am. Tobacco Co., 221 U.S. 106 (1911) 19

United States v. Topco Assocs., 405 U.S. 596 (1972) 16

Va. Panel Corp. v. MAC Panel Co., 133 F.3d 860 (Fed. Cir. 1997) 16, 17

Windsurfing International v. AMF, Inc., 782 F.2d 995 (1986) 10, 11, 12

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969) 7, 26

CONSTITUTIONAL PROVISIONS

U.S. Const. art. I, §8, cl. 8 20

LEGISLATIVE MATERIALS

Intellectual Property Antitrust Protection Act of 1988, S. 438 §201, 100th Cong. (1988) 13

Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, §201, 102 Stat. 4674 (1988) (codified at 35 U.S.C. §271(d)(5)) .....*passim*

RULES

U.S. Sup. Ct. Rule 37.6 1

TABLE OF AUTHORITIES – Continued

Page

OTHER AUTHORITIES

Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. Pa. L. Rev. 1 (2005).....19, 22

Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers on Econ. Activity, Microeconomics 283 (1997).....25

Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 Ala. L. Rev. 103 (2008).....12

Kenneth J. Burchfield, *Patent Misuse and Antitrust Reform: "Blessed be the Tie?,"* 4 Harv. J.L. & Tech. 1 (1991).....13

10 Phillip Areeda, Einer Elhauge & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* §1782(c) (2004).....25

Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law*, ¶ 1502 (2d ed. 2000).....16

Robert Pitofsky, *Antitrust in the Next 100 Years*, 75 Cal. L. Rev. 817 (1987).....15

Robin Feldman, *A Conversation on Judicial Decision-Making*, 5 Hastings Sci. & Tech. L.J. 1 (2013).....27

Robin Feldman, *Patent and Antitrust: Differing Shades of Meaning*, 13 Va. J.L. & Tech. 1 (2008).....20, 24

TABLE OF AUTHORITIES – Continued

Page

Robin Feldman, *Rethinking Patent Law* (Harvard 2012).....1, 18, 22, 24, 29

Robin Feldman, *The Role of Science in Law* (Oxford 2009).....1

Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003).....5, 9, 13

Robin Cooper Feldman, *Defensive Leveraging in Antitrust*, 87 Geo. L.J. 2079 (1999).....4, 14

INTEREST OF THE *AMICI CURIAE*[1]

Amicus curiae Professor Robin Feldman is an expert in intellectual property law, particularly issues involving the sciences, intellectual property monetization, and the intersection of intellectual property and antitrust. She is a Professor of Law at the University of California, Hastings College of the Law, and holds the Harry & Lillian Hastings Chair. Professor Feldman is Director of *amicus curiae* the Institute for Innovation Law, which is focused on innovation at the crossroads of intellectual property and emerging technology. She also directs client-based education, including the Startup Legal Garage, and writes extensively about intellectual property issues. She has received multiple awards for teaching and scholarship, and has published two books, *Rethinking Patent Law* (Harvard 2012) and *The Role of Science in Law* (Oxford 2009), in addition to numerous articles in law reviews and the New England Journal of Medicine. Professor Feldman has testified before Congress and the California legislature on intellectual property issues, and has provided testimony and commentary for the Federal Trade Commission, the Department of Justice, and the Patent and Trademark Office.

---

[1] Counsel for all parties have consented to the filing of this brief, as indicated by consents lodged with the Clerk of this Court. No counsel for any party had any role in authoring this brief, and no person other than the named *amici* and their counsel has made any monetary contribution to the preparation of this brief. *See* Rule 37.6.

Amicus curiae Professor Alice Armitage is a Program Director and Adjunct Professor at the University of California Hastings College of the Law Institute for Innovation Law. She is a Yale Law School alumna (Class of '80) and the first woman Editor-in-Chief of the Yale Law Journal. Her early career included years at Arnold & Porter and the Treasury Department, and she has taught as an adjunct professor at UCLA School of Law.

Amici Curiae Professor Feldman, Professor Armitage, and the Institute for Innovation Law at the University of California, Hastings College of the Law have a strong interest in maintaining the integrity of both patent and antitrust law, as well as ensuring an effective choice of legal tests in each domain. *Amici* submit this brief to offer for this Court's consideration a detailed view of the struggle that has been occurring in the lower courts regarding the doctrine at issue in this case. *Amici* also write to suggest that neither antitrust's rule of reason nor its *per se* test is appropriate for determining the enforceability of licenses that extend beyond the term of the patent.

SUMMARY OF ARGUMENT

Patent and Antitrust are not the same. The two regimes flow from separate legislative structures articulating different goals. In order to mark the boundary line between the two domains, this Court developed the doctrine of patent misuse, which is the

doctrine at the center of this case. Given the role that patents play in modern society, there is much at stake in delineating this boundary properly.

In the opinion below in this case, *Kimble v. Marvel Enterprises, Inc.*, 727 F.3d 856 (2013), the Ninth Circuit hints that this Court should overturn its opinion in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Although the Ninth Circuit is careful not to suggest what should replace *Brulotte*, the briefs of the parties reflect the struggle that is occurring. It is a struggle over whether the law should follow a path initiated by the Federal Circuit to eliminate patent misuse as an independent doctrine.

Since the development of patent misuse in the 1930s and 1940s, this Court has consistently held that patent misuse should be decided according to patent principles and not antitrust principles. For almost three decades, however, some lower courts have tried to subsume the doctrine of patent misuse under antitrust. It is a movement initiated by the Federal Circuit – in clear contravention of precedent.

In particular, the Federal Circuit in 1986 first attempted to make patent misuse follow antitrust law, then withdrew that attempt by cryptically noting that it lacked authority to do so, and later returned precisely to the withdrawn language. The present case offers this Court the opportunity to end the confusion that has arisen as the courts below have applied antitrust principles to patent misuse cases.

One can see the confusion reflected in the briefs in this case. Specifically, the parties vigorously debate whether certain patent misuse questions should be decided under antitrust's "rule of reason" test or the "*per se*" test.[2] Neither test, however, is appropriate. Patent misuse is a doctrine of patent law, and the choice between a rule of reason test and a *per se* test is designed for a different regime.

The rule of reason is the common standard used to evaluate restraints of trade under the Sherman Act in antitrust cases. It requires a prolonged and elaborate inquiry, which, as this Court has noted, is complex and burdensome on litigants and the judicial system.[3] In fact, common wisdom holds that an antitrust lawsuit will fail unless the plaintiff can avoid rule of reason analysis and obtain *per se* treatment.[4] Thus, applying the rule of reason to patent misuse would be the death knell for the doctrine.

---

[2] Pet'r's Pet. for Writ for Certiorari 4 (arguing for applying the rule of reason); Br. in Opp'n to Writ 19 (arguing against applying the rule of reason); Supp'l Br. of Pet'r for Writ 1-7 (arguing against applying a *per se* rule); *see also* Br. on Petition of *Amici Curiae* Memorial Sloan Kettering *et al.* 13-17 (advocating policing the area by adoption of antitrust principles).

[3] *See Cont'l T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 50 (1977); *see also* Part I.C, *infra*, text accompanying notes 10-11 (citing additional opinions from this Court).

[4] *See* Robin Cooper Feldman, *Defensive Leveraging in Antitrust*, 87 Geo. L.J. 2079, 2112 (1999) (describing the history of the rule of reason) (*hereinafter* Feldman, *Defensive Leveraging*).

These issues are of great importance for the proper functioning of the patent system. Quite simply, a patent is not a guarantee that a patent holder will earn anything. Rather, a patent is a time-limited opportunity to try to capture a return on an invention.[5] The market's inability to recognize or calculate the value of an invention is one of the hazards built into the 20-year patent term. One cannot ask the patent office to extend the patent for a few years because 20 years is not long enough to determine its true value. That is a decision for Congress to make, if it sees fit. Nothing changes if the 20-year term is ill-suited for a particular industry, such as the life sciences. Any arguments to this effect are appropriately directed to Congress.

The process of invention is often evolutionary with one advancement building on those that have gone before. While early stage inventors may make an initial leap forward, later stage inventors may create further developments. The structure of the patent system limits the reward that may be gained by early stage inventors, thereby ensuring that incentives will be available to those who come later. This structure represents a clear congressional choice.

---

[5] Sections of this brief are adapted from Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003) (*hereinafter* Feldman, *Insufficiency*) and are used here with permission from the Journal.

Parties should not be able to alter by contract what Congress has created by statute. It is certainly true that when the patent term ends, the patent holder will no longer be able to exclude *all* others from the use of its invention. With the patent system, however, every potential innovator matters. A contract provision that limits the capacity and incentive for even one potential innovator to make scientific leaps after the expiration of the patent disrupts the balances created by Congress in the Patent Act.

It is precisely this type of concern that led this Court to establish the doctrine of patent misuse. As the Court explained, without such limitations, "[p]rivate business would function as its own patent office and impose its own law upon its licensees. It would obtain by contract what letters patent alone may grant." *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 667 (1944).

Given the time-limited structure of a patent, any contract that would extend payments beyond the expiration of the patent would violate this principle at first glance. There may be sound reasons, however, why such a provision might be perfectly acceptable under patent law principles. For example, as with a mortgage or any form of extended payment contract, a party wishing to license the patent simply may not have the money to pay in a shorter time period for use during the patent term. Such extended payment terms may be particularly appropriate for a startup or other small business in which cash flow is challenging. Facts such as these could support a court's

assessment that an extended royalty provision is acceptable under patent principles.

Bringing clarity to this issue, however, does not require making a choice between antitrust's rule of reason test and its *per se* test. In cases such as *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) and *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), this Court has already moved away from unfortunate language in *Brulotte* and established a path towards a more flexible approach to the type of licensing provision at issue here. Signaling the continuation of this path would free the lower courts to develop the contours of such rules across time. This would provide the drafting guidance that businesses need, without destroying the doctrine of patent misuse. *Amici* respectfully urge the Court to continue the path it has begun and to clarify for lower courts that antitrust principles should not be used to decide cases of patent misuse.

ARGUMENT

I. PATENT MISUSE, AS CONSISTENTLY HELD BY THIS COURT, SHOULD BE DECIDED UNDER PATENT LAW PRINCIPLES RATHER THAN ANTITRUST. FOR NEARLY THREE DECADES, HOWEVER, LOWER COURTS HAVE REPEATEDLY MOVED TO CONFORM PATENT MISUSE TO ANTITRUST PRINCIPLES – DESPITE CONTRARY AUTHORITY FROM CONGRESS AND THIS COURT

As part of delineating the boundary between the Patent Act and the Antitrust statutes, this Court developed the doctrine of patent misuse in a series of cases in the 1930s and 1940s. *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), overruled on other grounds by *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006). These opinions established that patent misuse would be defined as an attempt to expand the time or scope of the patent.

For example, in the 1971 case of *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 402 U.S. 313 (1971), this Court discussed the doctrine of patent misuse along with its roots in the notion that, "a patent by its very nature is affected with a public interest." *Id.* at 343 (*citing Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)). The Court noted that, a "manifestation of this principle has been the series of decisions in which the Court has condemned attempts to broaden the physical

or temporal scope of the patent monopoly." *Id.* *Amici* specifically cite the *Blonder-Tongue* opinion for the definition of patent misuse because it is this opinion that will be distorted in later Federal Circuit cases. *See* Feldman, *Insufficiency* at 399 (explaining in detail the tortured Federal Circuit cases).

In addition to defining patent misuse as an attempt to expand the time or scope of the patent, this Court has held repeatedly that patent misuse should be tested under patent law principles, not those of antitrust law. *See, e.g., Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 641 (1947); *Morton Salt,* 314 U.S. at 493-94; *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). This Court has acknowledged that certain behaviors might violate both statutes, and that the public policy concerns animating one statute may be useful in analyzing whether the behavior raises concern for the other. *See Ill. Tool Works.*, 547 U.S. at 42; *Carbice*, 283 U.S. at 34 n.4; *Motion Picture Patents,* 243 U.S. at 517-18. Nevertheless, patent misuse is to be tested according to the specifically tailored statutory language and doctrinal principles of patent law.

The issues in the case at hand revolve around the doctrine of patent misuse, despite the fact that the case sounds in contract. The problem for the contract at issue flows from the provision that requires payment of royalties beyond the expiration of the patent. As described above, the doctrine of patent misuse condemns attempts to extend the time of the patent. Thus, the case concerns the proper test to determine

whether the continuing royalty agreement in the contract is unenforceable because it constitutes misuse of the patent. *See Brulotte*, 379 U.S. at 30 (noting that the defense in the case involved "misuse of the patents through extension of the license agreements beyond the expiration date of the patents").

A. THE FEDERAL CIRCUIT, IGNORING PRECEDENT, INSERTS ANTITRUST PRINCIPLES INTO THE DOCTRINE OF PATENT MISUSE

Until the mid-1980s, lower courts followed this Court's definition of patent misuse as an attempt to expand the time or scope of the patent, and treated it as a question to be answered according to patent principles. In 1986, however, the Federal Circuit reframed the test in antitrust terms. In *Windsurfing International v. AMF, Inc.*, 782 F.2d 995 (1986), Chief Judge Markey of the Federal Circuit held that to prove patent misuse, "the alleged infringer must show that the patentee has impermissibly broadened the 'physical or temporal scope' of the patent grant *with anticompetitive effect*." *Id.* at 1001 (emphasis added). The decision explained further that the key inquiry in patent misuse "must reveal that the overall effect of the [behavior] tends to restrain competition unlawfully in an appropriately defined relevant market." *Id.* at 1001-02.

In support of its language, the Federal Circuit cited this Court's opinion in *Blonder-Tongue*. The *Blonder-Tongue* opinion, however, does not contain

Windsurfing's language or its test, condemning only "attempts to broaden the physical or temporal scope of the patent monopoly." *Blonder-Tongue*, 402 U.S. at 343. In other words, the opinion says nothing about adding the notion of anticompetitive effects.

Thus, with a few strokes of the pen, the Federal Circuit added a new requirement for patent misuse. To constitute misuse, a patent holder's behavior must not only extend the time or scope of the patent, it must also create anticompetitive effects.

Within nine months, however, Judge Markey retreated to the holding that patent misuse did not require antitrust-type findings. *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed. Cir. 1986). He confined his views about altering patent misuse to a footnote in which he deferred to Congress and the Supreme Court to make the changes attempted in *Windsurfing*. "We are bound . to adhere to existing Supreme Court guidance in the area until otherwise directed by Congress or by the Supreme Court." *Id.* at 665 n.5.

After six years however, the Federal Circuit reinserted antitrust principles into its patent misuse decisions. In *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), Judge Newman held that "[t]he appropriate criterion is whether [the] restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having *an anticompetitive effect* not

justifiable under the rule of reason." *Id.* at 708 (emphasis added).

In adding the words "anticompetitive effect," the Federal Circuit cited *Windsurfing* as the relevant precedent for patent misuse. *Id.* at 706. The new opinion showed no awareness of Judge Markey's subsequent repudiation of *Windsurfing*, in which he acknowledged that the Federal Circuit did not have the authority to require such an analysis without action by Congress or by this Court. Moreover, the Federal Circuit has continued down the *Mallinckrodt* path by endorsing the *Mallinckrodt* approach *en banc* in 2010. *See Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1334 (Fed. Cir. 2010) (*en banc*) (citing *Windsurfing* and refusing to overrule the line of authority in the Federal Circuit that has defined patent misuse as requiring a showing that the patentee's conduct had anticompetitive effects), *cert. denied*, 131 S. Ct. 2480 (2011).[6]

---

[6] As the lower courts have noted, this Court has already cast doubt on aspects of *Mallinckrodt* in its 2008 *Quanta* decision, concerning the doctrine of exhaustion. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008); *see also Lexmark Int'l, Inc. v. Ink Techs. Printer Supplies, LLC*, 2014 WL 1276133 (S.D. Ohio 2014) (finding that "this court is persuaded that *Quanta* overruled *Mallinkcrodt sub silentio*"); *accord Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575, 585-86 (E.D. Ky. 2009); Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 Ala. L. Rev. 103, n.35 (2008) (arguing that the exhaustion aspects of *Mallinckrodt* are no longer good law).

B. CONGRESSIONAL ACTION IN THIS SPACE DOES NOT SUPPORT FEDERAL CIRCUIT DECISIONS

The Federal Circuit's adoption of antitrust principles to analyze patent misuse cases arose against the backdrop of a congressional debate over whether to conform patent misuse to antitrust rules. Scholars and legislators weighed in on both sides of the issue.[7] Following this discussion, the Senate passed a bill in 1988 that would have prohibited a finding of patent misuse unless the patent holder's "practices or actions or inactions violate the antitrust laws." Intellectual Property Antitrust Protection Act of 1988, S. 438 §201, 100th Cong. (1988). In the waning days of the 100th Congress, however, the House and Senate reached agreement on a different version that was far less sweeping.[8] Rather than applying antitrust rules across the board to all of patent misuse, the final language related only to tying. It required a finding of market power for misuse cases based on an accusation of tying.[9] The Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, §201, 102 Stat. 4674, 4676 (1988) (codified at 35 U.S.C. §271(d)(5)).

---

[7] For examples of competing analyses, *see* Feldman, *Insufficiency* at 420 n.100.

[8] For a detailed description of the path of House and Senate versions and final compromise language, *see* Kenneth J. Burchfield, *Patent Misuse and Antitrust Reform: "Blessed be the Tie?,"* 4 Harv. J.L. & Tech. 1, 2 n.9 (1991).

[9] For additional details of the 1988 Act and debate, *see* Feldman, *Insufficiency* at 421-24.

The congressional action on this issue is significant. When Congress has considered but ultimately failed to approve broader language, this Court has warned against taking the steps that Congress rejected: "We will ordinarily not assume that Congress intended 'to enact statutory language that it has earlier discarded in favor of other language.'" *Chickasaw Nation v. United States*, 534 U.S. 84, 93 (2001) (*quoting INS v. Cardoza-Fonseca*, 480 U.S. 421, 443 (1987) (*quoting Nachman Corp. v. Pension Benefit Guar. Corp.*, 446 U.S. 359, 393 (1980) (Stewart, J., dissenting))). By broadly incorporating antitrust principles into patent misuse cases when Congress discarded that approach, the Federal Circuit ignored this Court's warnings.

C. THE DANGERS OF FOLLOWING THE FEDERAL CIRCUIT'S LEAD

As a result of the Federal Circuit's attempt to import antitrust principles into patent misuse, the doctrine has become a confusing tangle that has the potential to distort both antitrust and patent law. One reason for this confusion is the differing ways in which the Federal Circuit imports antitrust's rule of reason.[10]

---

[10] For a description of the rule of reason and the complexities of its application, *see* Feldman, *Defensive Leveraging* at 2107 n.140 (1999). The classic description of the rule of reason test appears in Justice Brandeis's opinion in *Board of Trade v. United States*, 246 U.S. 231, 238 (1918):

(Continued on following page)

The confusion begins with the nature of the rule of reason test itself. The rule of reason involves a laborious inquiry that, as this Court has noted, is burdensome on litigants and on the judicial system. *See GTE Sylvania Inc.*, 433 U.S. at 50 (describing rule of reason trials as complex and burdensome on litigants and the judicial system); *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5 (1958) (noting that the rule of reason inquiry is often wholly fruitless when undertaken and that the analysis requires a tremendously complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries); *see also* Robert Pitofsky, *Antitrust in the Next 100 Years*, 75 Cal. L. Rev. 817, 830 & n.42 (1987) (*citing United States v. Trenton Potteries Co.*, 273 U.S. 392 (1927), in which the Court refused to apply the rule of reason because of the practical difficulties of the minute inquiry into economic organization required).[11]

> [T]he court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its conditions before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts. This is not because a good intention will save an otherwise objectionable regulation or the reverse; but because knowledge of intent may help the court to interpret facts and to predict consequences.

[11] *Cf. Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 34 (1984) (O'Connor, J., concurring) (comparing rule of reason to

(Continued on following page)

Adding to this confusion, the Federal Circuit's language at times suggests that courts should apply a two-part test for patent misuse, determining first whether the behavior violates patent policy and then whether the behavior violates antitrust law. *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997). *See also Mallinckrodt,* 976 F.2d at 708. Following this approach, a litigant would have to successfully demonstrate both a patent law violation and an antitrust violation.

Creating even further confusion, the Federal Circuit at times uses the term "rule of reason" correctly to describe the full test that is applied in lieu of a *per se* test.[12] *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d

---

the peculiar form of *per se* rule applied in tying cases and describing both as requiring extensive and time-consuming economic analysis); *United States v. Topco Assocs.*, 405 U.S. 596, 609-10 (1972) (noting that "[i]nability to weigh, in any meaningful sense, destruction of competition in one sector of the economy against promotion of competition in another sector is one important reason we have formulated *per se* rules").

[12] The rule of reason requires a detailed series of steps. First, the plaintiff has the initial burden of showing that the behavior restrains competition in a specific market. Second, if the plaintiff meets this initial burden, the burden shifts to the defendant to show that its behavior serves legitimate objectives. Third, if the defendant meets that burden, the plaintiff may show that the defendant could meet its objective using less restrictive alternatives. And finally, the court must weigh the harms and benefits of the restraints with the plaintiff bearing the burden to show that the restraint is unreasonable on balance. *See* Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law*, ¶ 1502, at 345-46, 371-72 (2d ed. 2000).

1419, 1426-27 (Fed. Cir. 1997). At other times, however, the circuit uses the term "rule of reason" to refer only to the portion of the test that considers whether the anticompetitive effects are outweighed by procompetitive benefits. *Va. Panel Corp.*, 133 F.3d at 868-69. In short, as the Federal Circuit has moved to apply antitrust law to patent misuse cases, it has created a confused and tortured set of doctrines.

Endorsing the Federal Circuit's move to make patent misuse equivalent to antitrust creates dangers for other doctrinal areas. The first problem relates to antitrust's rule of reason itself. The doctrinal confusion described above could well bleed over into antitrust law, with courts and litigants citing Federal Circuit patent misuse cases for a description of what the rule of reason is or what an inquiry into anticompetitive effects should look like. If that happens, rather than helping to delineate the boundary between patent and antitrust law, patent misuse could succeed in wreaking havoc in both areas.

The second problem relates to undermining this Court's recent case law regarding the doctrine of exhaustion. In its 2008 decision in *Quanta*, 553 U.S. 617, this Court re-invigorated the doctrine of exhaustion, which had languished under Federal Circuit jurisprudence. Under the doctrine of exhaustion, once

a product embodying the patented invention is released into the stream of commerce, the patent holder may not control the item further.[13] In light of this doctrine, a license reaching beyond the point of the patent's exhaustion would, therefore, constitute an impermissible attempt to expand the time or scope of the patent – in other words, it would constitute patent misuse.[14] As a result, the patent holder could not bring an infringement claim against the licensee because the attempted expansion would constitute patent misuse.[15]

If patent misuse is tested under the antitrust rule of reason, however, exhaustion becomes irrelevant for most patents. The rule of reason requires a

---

[13] *See* Robin Feldman, *Rethinking Patent Law* 141-44 (Harvard 2012) (describing *Quanta*, the doctrine of exhaustion, and its interaction with patent misuse) (*hereinafter* Feldman, *Rethinking Patent Law*). The doctrine of exhaustion has roots both in the law related to chattels and its preference for the free alienability of property, and in modern economic theory. *See id.* at 144-48.

[14] *See id.*

[15] The *Quanta* case did not involve any breach of contract claims, and thus, this Court declined to consider patent misuse in the context of breach of contract damage claims. *See Quanta*, 553 U.S. at 638 n.7 (noting that, "[The patent holder] does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages."). To the extent that the issue arises in this case, as noted above, *Amici* respectfully urge this Court not to allow patent holders to obtain by contract what they are denied by patent law. *See* Part III., *infra*.

finding of market power, and most patents are unlikely to generate market power at any point in their 20-year term.[16] Thus, this Court's recently reinvigorated doctrine of exhaustion would become a defunct doctrine for most patents.

II. PATENT LAW IS NOT ANTITRUST; ANTITRUST LAW FOCUSES ON COMPANIES WITH MARKET POWER; PATENT LAWS GENERALLY APPLY TO ALL PATENT HOLDERS – REGARDLESS OF WHETHER THEY HAVE MARKET POWER

The Patent Act and the antitrust statutes exist for different, articulated reasons. A clear separation of the two areas of law is critical to reduce confusion in both patent and antitrust cases.

Specifically, antitrust law focuses its wrath on companies that try to gain or maintain monopoly power by inappropriately suppressing competition and thereby creating anticompetitive effects in the market. *See, e.g., Standard Oil Co. v. United States*, 221 U.S. 1 (1911); *United States v. Am. Tobacco Co.*,

---

[16] Given that the vast majority of patent holders earn no return on their patents at all, it is unlikely that they hold market power in a properly defined market. *See* Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. Pa. L. Rev. 1, 5 & n.3, 14-15 (2005) (finding that most patent holders earn no returns); *see* Part II., *infra* (explaining the rule of reason and its requirement of a finding of market power).

221 U.S. 106 (1911).[17] To create the harm that antitrust law examines, a firm ordinarily must have market power. Without market power, a firm cannot raise prices or limit supplies, and thereby create the type of anticompetitive effects that antitrust law recognizes. Thus, where no market power exists, antitrust is generally unconcerned by firm behavior. This is particularly true for the rule of reason, which always requires a finding of market power.[18]

In contrast, the goal of patent law is to promote the progress of the useful arts for the overall benefit of society. U.S. Const. art. I, §8, cl. 8 (giving Congress the power to grant patents for limited times to "promote the Progress of useful Arts"). From a historic perspective, a patent can be analogized to a government franchise – something granted for a limited time in pursuit of a particular goal.[19] The limits chosen on the time and scope of a patent represent the balance Congress has created between the promotion of

---

[17] For a more in depth analysis of the differences between antitrust and patent laws, *see* Robin Feldman, *Patent and Antitrust: Differing Shades of Meaning*, 13 Va. J.L. & Tech. 1, 4-5 (2008) (*hereinafter* Feldman, *Differing Shades*).

[18] *See* Feldman, *Differing Shades* at 3-4.

[19] *See Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*, No. 13-854, slip op. at 6, n.2 (S. Ct. Jan. 20, 2015) (Thomas, J., dissenting) (*citing* Caleb Nelson, *Adjudication in the Political Branches*, 107 Colum. L.R. 559, 567 (2007)) (for the historic perspective that under English common law, patents fall within the category of franchises the government has created for reasons of public policy, rather than core private rights like property, and that the Framers adopted a similar scheme).

invention in the grant of the patent and the potential harms to invention that flow from the existence of that patent. Such potential harms are not limited to the type of effects that raise concerns under antitrust law. Other potential harms that arise from the existence of patents include the burden on downstream innovation when there is an over-proliferation of patents governing every step of development and the wasteful research required to invent around existing patents. To these potential harms, one can add the societal costs of defending against assertions of patents that may be invalid or may have been asserted against an inappropriate target. Such costs are of notable concern today with the emergence of modern patent trolling.

Of particular relevance for this case, the harms that arise from the existence of patents include the disincentives to innovation that result from allocating potential rewards to early-stage inventors over late-stage inventors. The process of invention is often evolutionary with one invention building on those that have gone before. The structure of the patent system balances the reward that may be gained by early stage inventors by ensuring that incentives will be available to those who come later.

In the patent system, every potential inventor is important because any one may be the inventor who takes the next step forward. A contract provision that limits the capacity and incentive for even one potential innovator to make scientific leaps after the

expiration of the patent disrupts the balances created by Congress in the Patent Act.

Antitrust rules, however, are not designed to reach all parties in the market but focus primarily on parties who have market power. As this Court has explained, a patent is no guarantee of market power. *Ill. Tool Works,* 547 U.S. at 45-46; *see also* Robin Feldman, *Rethinking Patent Law* (arguing that a patent provides no more than an opportunity to bargain). No one may be interested in the patented invention or there may be sufficient substitutes so that the patent holder does not have power in a properly defined market. For example, the holder of a patent on acetaminophen would still have to compete with those who produce other pain-relieving compounds, such as aspirin, ibuprofen, and naproxen. Thus, even when patents generate a high level of revenue, that revenue may not translate into market power. Most important, the vast majority of patent holders earn nothing at all from their patents, an indication of how few patent holders could ever be said to possess market power.[20]

Despite the lack of market power for most patents, patent rules apply to all. The patent rules do not say, for example, that we grant a patent for twenty years, but the 20-year limit only applies to patent holders who have market power. Rather, the boundaries

---

[20] *See* Parchomovsky & Wagner, 154 U. Pa. L. Rev. at 5 & n.3.

of the patent grant, as delineated in the Patent Act, apply with equal force to all patent holders.

Quite simply, a patent is not a guarantee that a patent holder will earn anything. It is a time-limited opportunity to try to capture a return on an invention. The market's inability to recognize or calculate the value of an invention is one of the hazards built into the 20-year patent term. One cannot go to the patent office at the end of the patent term and ask for a few more years on the grounds that the market is not ready yet to determine its true value. That is a decision for Congress to make, if it sees fit.

Nor can a patent holder secure extra time up front by anticipating that its industry may need more time and building such time into each license provision. If the 20-year term is ill-suited for any particular industry, including the life sciences, those arguments are appropriately directed to Congress. Thus, when the briefs of parties and others in this case argue for allowing contracting parties to balance and allocate the risk of developing and commercializing a product,[21] they are asking this Court to redistribute the balances that Congress has chosen. *Amici* respectfully suggest that those requests are misdirected.

---

[21] *See* Pet'r's Br. on Merits 29-36; Br. on Pet. of Memorial Sloan-Kettering Cancer Center et al. as *Amici Curiae* 5-9; Br. on Pet. of the Center for Intellectual Property Research of the Indiana University Maurer School of Law et al. 3-6.

In short, a patent is no more than the grant of an opportunity.[22] There is no guarantee that the market will recognize the value of an invention or that the inventor will be able to capture that value during the patent term. The true genius of an invention and its many applications may not be known until long after the patent has expired. These and other limitations are essential elements of the patent grant and part of a built-in balance, with the goal of ultimately benefiting society. Antitrust law, with its ear tuned to market power and different types of harms, is ill-suited to handle the questions that arise for patent law and patent misuse.

III. SIMILAR TO THIS COURT'S REFUSAL TO APPLY ANTITRUST PRINCIPLES IN *OCTANE*, THIS COURT SHOULD RECTIFY LOWER COURTS' THINKING BY UPHOLDING *BRULOTTE* WHILE REMOVING THE TAINT OF ANTITRUST-LIKE *PER SE* LANGUAGE IN *BRULOTTE* AND REAFFIRMING A PREFERENCE FOR A FLEXIBLE TEST APPLYING PATENT PRINCIPLES

The asymmetries between patent and antitrust law make it difficult to simply borrow a test or principle from one area and apply it to the other. This Court encountered a similar issue last term when it rebuffed an effort to import antitrust tests into patent

---

[22] Feldman, *Differing Shades* at 11; Feldman, *Rethinking Patent Law* at 23-25.

law in a different context. Specifically, in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 132 S. Ct. 1749 (2014), this Court rejected the Federal Circuit's decision to import a test from antitrust's sham litigation rules into the doctrines for applying the Patent Act's fee-shifting provision. In rejecting the Federal Circuit's approach, this Court held that the relevant antitrust test "finds no roots" in the Patent Act's language. *Id.* at 1757.

This case creates a circumstance, similar to that in *Octane*, in which this Court is being asked to endorse the importation of a test from antitrust principles into patent law doctrines. *Amici* note that this Court did not use any antitrust principles to arrive at its holding in *Brulotte*. There was, however, an unfortunate use of a term borrowed from the body of antitrust laws that has caused much of the resulting confusion in this area of patent licensing: "[W]e conclude that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Brulotte*, 379 U.S. at 32 (emphasis added). Commentators have argued that the *per se* language in the *Brulotte* decision means that all payments past the expiration of a patent are impermissible. The extensive criticism of *Brulotte* flows from that interpretation and from the concerns that modern economic theory would suggest for such a rigid rule.[23]

---

[23] *See, e.g.*, 10 Phillip Areeda, Einer Elhauge & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles*

(Continued on following page)

This Court, however, has already signaled a path away from such a rigid conclusion. As early as *Brulotte* itself, this Court indicated its willingness to consider upholding a license if the payments that extended beyond expiration of the patent were analogous to extended payments for use prior to the patent's end. *Brulotte,* 379 U.S. at 33-34; *see also Zenith Radio Corp.*, 395 U.S. 100 (rejecting the license but framing the inquiry in terms of whether the agreement was a reasonable business convenience for the parties). Similarly, in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), this Court upheld a patent license agreement – despite the failure of the patent to issue – on the grounds that the agreement contained a two-tiered scheme with different royalty payments depending on whether the patent issued. Such a provision reflects an appropriate recognition of the patent holder's diminished control of the invention without an active patent in place. Thus, *Brulotte* creates a much less rigid rule than some interpretations have suggested. Much of the confusion in *Brulotte*'s application can be alleviated by removing the taint of the "*per se*" language.

As this line of decisions has demonstrated, there may be sound reasons why a provision extending royalties beyond the expiration of a patent might be

---

and Their Application §1782(c) (2004); Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers on Econ. Activity, Microeconomics 283, 322 (1997).

perfectly acceptable under patent law principles. Patent holders should have the opportunity to show that such a provision is acceptable. For example, a patent holder arguing that a particular license with payments beyond the expiration of a patent serves the same purpose as a long-term payment plan could support that argument with a showing that the licensee was a startup or other small business, for whom cash flow was a challenge.

To continue along this line, courts need not engage in an amorphous balancing inquiry. Rather, once freed to consider the issue, the lower courts can identify circumstances in which extended royalty provisions are acceptable under patent principles, particularly provisions that in some measure reflect the diminished control a patent holder enjoys when a patent expires. These categories, of course, must fit together with supportable logic – rather than representing ad hoc justification to reach the desired result. *See* Robin Feldman, *A Conversation on Judicial Decision-Making*, 5 Hastings Sci. & Tech. L.J. 1 (2013) (arguing that the Federal Circuit has too often relied on rules of convenience, rather than developing rules of general applicability and noting that it is not a matter of rules verses standards, but a problem of being faithful to the principle for which the rule is a proxy). Nevertheless, signaling the continuation of a path this Court has already begun would free the lower courts to develop the case law that would provide the type of guidance sorely needed for businesses that must draft licensing provisions.

To the extent parties suggest that subsuming patent misuse under antitrust is necessary to avoid errant economic implications in early patent misuse cases, *Amici* note that economic theory has advanced considerably since the early cases related to both patent misuse and antitrust. Without the benefit of modern economic analysis, early cases in both domains assumed that a patent conferred market power. These cases also displayed a less robust understanding of the market conditions necessary for tying arrangements to create economic harm and of the need to analyze the full implications of what might appear to be an improper tying arrangement. Congress's 1988 amendments, however, and this Court's own decisions, have moved away from any such implications. Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, §201, 102 Stat. 4674, 4676 (1988) (tying does not constitute patent misuse without market power); *Ill. Tool Works,* 547 U.S. at 45-46 (ruling in an antitrust case that patents do not automatically confer market power). Raising concerns at this point would be a distraction from the issues at hand.

IV. CONTRACTS SHOULD NOT PROVIDE AN END RUN AROUND PATENT LAW

This Court has had experience with the problems that can arise when the law related to patent agreements is used as end run around the limits imposed in other doctrinal arenas. In particular, during the development of antitrust law in the late nineteenth and early twentieth centuries,

this Court tried separating contract and patent law into different baskets.[24] With breach of contract claims, courts would consider antitrust defenses, but with patent claims, courts would not.

In the wake of these early cases, patent holders used the notion of separating patent and contract law to game the antitrust system. Feldman, *Rethinking Patent Law* at 138 (noting that in testimony before Congress, one German manufacturer commented that he could simply avoid U.S. antitrust laws through patent licensing). In light of such strategic behavior, this Court rejoined patent and contract law, which ensured that patents could not be used to create an end run around antitrust law. In particular, in *Mercoid,* 320 U.S. at 667, this Court explained that without such an approach, "[p]rivate business would function as its own patent office and impose its own law upon its licensees."

The issues in the present case raise similar concerns. Just as this Court refused to allow licensing contracts to be an end run around the antitrust system, neither should this Court allow licensing contracts to be an end run around the patent system. If patent holders can contract around patent law, any constraints imposed by the Patent Act can be easily

---

[24] For a detailed description of this history and a discussion of the problems of allowing patents, contracts, and antitrust to create end runs around each other, *see* Robin Feldman, *Rethinking Patent Law* at 136-78.

circumvented. Patent holders could simply file breach of contract claims and be free of any Patent Act restraints. In short, this Court should ensure that modern case law does not, once again, separate out contracts from patent law, such that contracts become an end run around the patent system.

CONCLUSION

Since the development of the doctrine of patent misuse, this Court has consistently held that such cases should be decided according to patent principles and not antitrust. This approach reflects the distinctly different goals and structures of the two areas of legislation. Of particular importance, antitrust focuses on the anticompetitive effects that can be caused by parties who have market power. The limitations of the Patent Act, however, apply to all patent holders, not just those with market power.

Moreover, a key restriction of the 20-year patent term lies with the limited opportunity patent holders have to try to capture a return on their invention. The market's inability to recognize or calculate the value of an invention is one of the hazards built into such a limited term. Thus, a contract provision that hampers the capacity and incentive for even one potential innovator to make scientific leaps after the expiration of the patent disrupts the balances created by Congress in the Patent Act. When parties request such terms, they are asking this Court to redistribute

the balances that Congress has chosen, a petition that is best directed to Congress.

This does not mean that all payments beyond expiration of the patent are improper. There may be sound reasons why a provision extending royalties beyond the expiration of a patent might be perfectly acceptable under patent law principles, and this Court has already signaled a path away from any rigid rejection of all such provisions.

In searching for the appropriate test for identifying circumstances in which such a provision would be proper under patent law principles, antitrust's rule of reason would be a poor fit. Of greatest concern, by asking this Court to choose between antitrust's rule of reason and its *per se* test, the parties are asking the Court to continue a path initiated by the Federal Circuit almost 30 years ago, when the circuit began trying to apply antitrust to patent misuse doctrine. The circuit's approach is in contravention of precedent from Congress and this Court, and it has created great confusion in the doctrine of patent misuse. Endorsing the circuit's approach risks creating additional confusion – for both patent misuse and antitrust – as well as undermining this Court's recent exhaustion jurisprudence.

Amici respectfully ask this Court to clarify that patent law is not antitrust law, and to continue to move the lower courts away from the *per se* language in *Brulotte*. Both of these actions would free the lower courts to develop case law to provide the type

of guidance businesses need, framed according to proper patent principles.

Respectfully submitted,

ROBIN FELDMAN
Counsel of Record
ALICE ARMITAGE
UNIVERSITY OF CALIFORNIA
HASTINGS COLLEGE OF THE LAW
200 McAllister Street
San Francisco, California 94102
(415) 565-4661
feldmanr@uchastings.edu

Counsel for Amici Curiae

AMICUS CURIAE BRIEF

No. 13-720

Supreme Court, U.S.
FILED
FEB 4 - 2015
OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

STEPHEN KIMBLE, *et al.*,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE U.S. COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO AS *AMICUS CURIAE* IN SUPPORT OF NEITHER PARTY

DAVID L. APPLEGATE*
WILLIAMS MONTGOMERY & JOHN LTD.
6100 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 443-3200
dla@willmont.com

Of Counsel:
CHARLES W. SHIFLEY
BANNER & WITCOFF, LTD.
10 South Wacker Drive
Suite 3000
Chicago, IL 60606
(312) 463-5000

GARRET A. LEACH
PRESIDENT
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
P.O. Box 472
Chicago, IL 60609
(312) 984-7764

DONALD W. RUPERT
MARSHALL, GERSTEIN & BORUN LLP
6300 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 474-6300

February 4, 2015

*Counsel of Record

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES ii

INTEREST OF *AMICUS CURIAE* 1

SUMMARY OF ARGUMENT 2

ARGUMENT 3

I. *BRULOTTE* RUNS COUNTER TO THIS COURT'S OTHERWISE SOUND APPLICATION OF ECONOMIC PRINCIPLES TO PATENT AND ANTITRUST LAW 3

II. THE COURT SHOULD REPLACE *BRULOTTE*'S *PER SE* RULE WITH A RULE OF REASON GROUNDED IN SOUND ECONOMIC ANALYSIS. 6

CONCLUSION 10

TABLE OF AUTHORITIES

Cases

Albrecht v. Herald Co.,
390 U.S. 145 (1968) 4

Aronson v. Quick Point Pencil Co.,
99 S.Ct. 1096 (1979) 9

Ar-Tik Systems, Inc. v. Dairy Queen, Inc.,
302 F.2d 496 (3d Cir. 1962) 5

Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.,
339 U.S. 827 (1950) 4, 7

Brulotte v. Thys Co.,
379 U.S. 29 (1964) 1, 2, 4, 5, 6, 7, 9, 10

Continental T.V. v. GTE Sylvania,
433 U.S. 36 (1977) 3, 4

Jahn v. 1-800-FLOWERS.com, Inc.,
284 F.3d 807 (7th Cir. 2002) 5

Meehan v. PPG Indus., Inc.,
802 F.2d 881 (7th Cir. 1986) 7

Scheiber v. Dolby Laboratories, Inc.,
293 F.3d 1014 (7th Cir. 2002) 5

Scott Paper Co. v. Marcalus Mfg. Co.,
326 U.S. 249 (1945) 7

Spectrum Sports, Inc. v. McQuillan,
506 U.S. 447 (1993) 3

State Oil Co. v. Khan,
522 U.S. 3 (1997) 4

Stephen Kimble v. Marvel Enterprises Inc.,
727 F.3d 856 (9th Cir. 2013) 5

Stewart v. Mo-Trim, Inc.,
192 U.S.P.Q. 410 (S.D. Ohio 1975) 8

Teva Pharmaceuticals USA, Inc. v. Sandoz,
574 U. S. ___ , No. 13-854 (Jan. 20, 2015) 8

Thys Co. v. Brulotte,
382 P.2d 271 (Wash. 1963) 4

U.S. v. Arnold, Schwinn & Co.,
388 U.S. 365 (1967) 3, 4

USM Corp. v. SPS Technologies, Inc.,
694 F.2d 505 (7th Cir. 1982) 5, 7, 8

Windsurfing International, Inc. v. AMF, Inc.,
782 F.2d 995 (Fed. Cir. 1986) 4

Zenith Radio Corp. v. Hazeltine Research, Inc.,
89 S.Ct. 1562 (1969) 7-8

Zila, Inc. v. Tinnell,
502 F.3d 1014 (9th Cir. 2007) 5

Statutes

15 U.S.C. § 2 3

Other Authorities

10 Phillip E. Areeda et al., Antitrust Law,
§§ 1782c2-c3, pp. 505-11 (1996) 6

Harold See & Frank M. Caprio, *The Trouble with Brulotte: the Patent Royalty Term and Patent Monopoly Extension*,
1990 Utah L.Rev. 813 (1990) 6

John W. Schlicher, 2 Patent Law, Legal and Economic Principles,
§13:192 (2d ed. 2004) 6

Michael Koenig, *Patent Royalties Extending Beyond Expiration: An Illogical Ban From Brulotte To Scheiber,*
2 Duke Law & Technology Review 1-11 (2003) 6

Raymond T. Nimmer and Jeff Dodd, Modern Licensing Law,
§ 13:31 (2012) 6

Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L.Rev. 677 (1986) 6

U.S. Const., Art. 1, Sec. 8. 3

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*,
15 Marquette Intellectual Property L. Rev. 1, 142 (2011) 6

INTEREST OF *AMICUS CURIAE*

The Intellectual Property Law Association of Chicago ("IPLAC") submits this brief as amicus curiae in support of neither party on the ultimate merits of the case. However, IPLAC supports Petitioners' request that the *per se* rule of *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) should be overruled.[1,2] Founded in 1884, the Intellectual Property Law Association of Chicago is a voluntary bar association of over 1,000 members who practice in the areas of

---

[1] Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in any part, no such counsel or a party made a monetary contribution intended to fund the preparation or submission of the brief, and no person other than the *amicus curiae*, its members, or its counsel, made such a monetary contribution. The parties in the case have consented to this filing by IPLAC.

[2] In addition to the required statement of footnote 1, IPLAC adds that after reasonable investigation, IPLAC believes that (a) no member of its Board or Amicus Committee who voted to prepare this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (b) no representative of any party to this litigation participated in the authorship of this brief, and (c) no one other than IPLAC, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

patents, trademarks, copyrights, trade secrets and the legal issues they present. IPLAC is the country's oldest bar association devoted exclusively to intellectual property matters. In litigation, IPLAC's members are split about equally between plaintiffs and defendants. Its members include attorneys in private and corporate practices before federal bars throughout the United States, as well as the U.S. Patent and Trademark Office and the U.S. Copyright Office. As part of its central objectives, IPLAC is dedicated to aiding in the development of intellectual property law, especially in the federal courts.[3]

SUMMARY OF ARGUMENT

Half a century ago, in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), this Court held that post-expiration royalties in patent licenses were "unlawful *per se*." The *per se* rule of *Brulotte* predates the Court's application of sound economic principles to deciding cases and is out of step with this Court's economics-based patent and antitrust jurisprudence.

IPLAC therefore urges the court to clarify that *Brulotte* does not bar post-expiration royalties in patent licenses that are supported by sound economic analysis and do not run afoul of the antitrust laws of the United States.

---

[3] Although over 30 federal judges are honorary members of IPLAC, none of them was consulted or participated in any way regarding this brief.

ARGUMENT

I. *BRULOTTE* RUNS COUNTER TO THIS COURT'S OTHERWISE SOUND APPLICATION OF ECONOMIC PRINCIPLES TO PATENT AND ANTITRUST LAW

Patent law and antitrust law are in inherent tension yet serve the same aim. Patents confer a time-limited right to exclude others from practicing patented inventions. U.S. Const., Art. 1, Sec. 8. Their purpose is explicitly "[t]o promote the progress of ... useful arts." *Id.* Antitrust law, on the other hand, seeks to prevent the exercise of monopoly power. *E.g.*, 15 U.S.C. § 2. Yet there, too, the purpose of the law is to promote competition and to reward innovation. *E.g., Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 458 (1993) ("The [antitrust] law directs itself not against conduct which is competitive, even severely so, but against conduct which unfairly tends to destroy competition itself.")

In the antitrust arena, this Court has therefore rightly recognized that laws designed to promote commerce and industry should be applied to achieve that aim.

In *Continental T.V. v. GTE Sylvania*, 433 U.S. 36, 53 (1977), for example, this Court overruled *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365, 380 (1967). The Court had decided *Schwinn* just ten years earlier. *Schwinn* had declared restrictions on a dealer's territories illegal *per se* on the authority of "the ancient rule against restraints on alienation." 433 U.S. at 53 n.21. But by 1977 the Court was

ready to consider "substantial scholarly and judicial authority" supporting economic analysis and so reversed itself. 433 U.S. at 57-58.

More recently, in *State Oil Co. v. Khan*, 522 U.S. 3 (1997), the Court overruled *Albrecht v. Herald Co.*, 390 U.S. 145 (1968) as economically unsound. *Khan* noted "the substantial criticism the [*Albrecht*] decision has received." 522 U.S. at 18. It therefore found "insufficient economic justification for *per se* invalidation of vertical maximum price fixing." *Id.* *See also, e.g., Windsurfing International, Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) ("Recent economic analysis questions the rationale behind holding any licensing practice *per se* anticompetitive," *citing, inter alia, GTE Sylvania.*)

The Court decided *Schwinn* three years after *Brulotte*, and *Albrecht* was decided just a year after that. *Brulotte* has received comparable criticism and yet remains the law of this Court. Yet like *Schwinn*, *Brulotte* "was an abrupt and largely unexplained departure from" existing law. *GTE Sylvania*, 433 U.S. at 47. In essence, *Brulotte* inexplicably adopted Justice Douglas's dissent from *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.*, 339 U.S. 827 (1950). *Brulotte* also relied on an analogy to tying cases that *Hazeltine* itself had expressly rejected. *Compare Brulotte*, 339 U.S. at 33, to *Hazeltine*, 339 U.S. at 832-33. In short, *Brulotte* was controversial from the start.

In reversing the court below, *Brulotte* ignored without comment many contrary cases and authorities. See *Thys Co. v. Brulotte*, 382 P.2d 271, 290-91 (Wash. 1963) (expressly noting such

authorities and cases on which they relied); *see also, e.g., Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F.2d 496, 506 (3d Cir. 1962) ("an agreement to pay royalties after a patent has expired may be valid and binding"). Over time, the controversy has reached a crescendo, both judicial and academic.

Judicial criticism began with Justice Harlan's dissent. *Brulotte*, 379 U.S. at 34 (1964) ("I think that more discriminating analysis than the Court has seen fit to give this case produces a different result.") The criticism continues with the 9th Circuit decision below. *Stephen Kimble v. Marvel Enterprises Inc.*, 727 F.3d 856, 857 (9th Cir. 2013) ("This appeal calls on us to again construe the Supreme Court's frequently-criticized decision in *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964). ... [In] *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1021 (9th Cir. 2007) ... [w]e acknowledged that the *Brulotte* rule is counterintuitive and its rationale is arguably unconvincing. *Id.* at 1019–20 & n.4.").

At least two Courts of Appeals explicitly invited the Court to reconsider *Brulotte*. *See Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1019-20 (9th Cir. 2007); *Scheiber v. Dolby Laboratories, Inc.*, 293 F.3d 1014, 1018 (7th Cir. 2002), *cert. denied*, 537 U.S. 1109 (2003). Others criticized *Brulotte* on similar reasoning. *See, e.g., USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 510-11 (7th Cir. 1982); *cf. Jahn v. 1-800-FLOWERS.com, Inc.*, 284 F.3d 807, 811-12 (7th Cir. 2002) (deferred royalty for a lawful sale does not violate subsequent laws or regulations proscribing such sales).

Academic criticism is ubiquitous and nearly unanimous. *E.g.*, Raymond T. Nimmer and Jeff Dodd, Modern Licensing Law § 13:31 (2012) (Post-expiration royalties do not "expand the claims or the scope of the patent."); Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marquette Intellectual Property L. Rev. 1, 142-43 (2011) (*Brulotte* "causes affirmative social harm"); John W. Schlicher, 2 Patent Law, Legal and Economic Principles §13:218 at 13-388 (2d ed. 2009) ("The use of the longer royalty term does not permit the patent owner to turn a patent with a 20 year term into a patent with a 30 year term The market power existing during the term [sic] patent can be exploited only once."); Michael Koenig, *Patent Royalties Extending Beyond Expiration: An Illogical Ban From Brulotte To Scheiber*, 2 Duke Law & Technology Review 1-11 (2003); 10 Phillip E. Areeda et al., Antitrust Law §§ 1782c2-c3, p. 505 (1996) ("*Brulotte* refused to see that typically such post-expiration royalties merely amortize the price of using patented technology."); Harold See & Frank M. Caprio, *The Trouble with Brulotte: the Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L.Rev. 813, 814, 851 (1990); Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L.Rev. 677, 709-12 (1986).

II. THE COURT SHOULD REPLACE *BRULOTTE'S PER SE* RULE WITH A RULE OF REASON GROUNDED IN SOUND ECONOMIC ANALYSIS.

The critics of *Brulotte* provide this Court with a blueprint for improvement. As recognized in

Areeda, *supra*, post-expiration royalties merely amortize the price of using patented technology. Where, as here and in *Brulotte*, a voluntary license requires payment after the licensed patent expires but in no way extends the patent itself, the Court should permit it. This should be true whether the patent is sold, licensed, or assigned.

As the Seventh Circuit explained in *Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 885 (7th Cir. 1986), "... *Brulotte* is not concerned with restrictions on the sale of patent rights but rather the impact of such arrangements on the policies and purposes of the federal patent laws." The rationale of *Brulotte*, it further explained, is that "the policy and purpose of the patent laws is undermined by any attempt to extend or preserve the patent monopoly beyond the [statutory period]," *id.* at 883, citing *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255-56, 66 S.Ct. 101, 104, 90 L.Ed. 47 (1945). Thus, where the economic realities of an arms-length agreement result in no patent term extension, but merely extend the term during which payments are made, the patent and antitrust laws should permit the agreement.

Earlier, in *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 510-11 (7th Cir.1982), the Seventh Circuit had questioned whether any number of outlawed practices really "extends" the patent. These practices include *Brulotte*'s proscription against paying royalties beyond the patent's expiration date, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964), *Hazeltine*'s bar against measuring royalties based on sales of unpatented end products containing the patented item, *Zenith Radio Corp. v.*

Hazeltine Research, Inc., 395 U.S. 100, 133-40, 89 S.Ct. 1562, 1581-85, 23 L.Ed.2d 129 (1969), and *Stewart v. Mo-Trim, Inc.'s* requirement that licensees not make items that compete with the patented item, 192 U.S.P.Q. 410, 412 (S.D. Ohio 1975).

Properly understood, each and every one of those practices is a means of pricing the patented rights. Yet none extends or alters the limits of the patent as an exclusionary right against the public. *Cf. Teva Pharmaceuticals USA, Inc. v. Sandoz*, 574 U. S. ___ , No. 13-854 (Jan. 20, 2015) ("the ultimate meaning of a patent, like the meaning of a statue, binds the public at large ... ") (Thomas, J., dissenting; Slip. Op. dissent at 7.)

As the Seventh Circuit observed, "[t]he patentee who insists on limiting the freedom of his purchaser or licensee — whether to price, to use complementary inputs of the purchaser's choice, or to make competing items — will have to compensate the purchaser for the restriction by charging a lower price for the use of the patent. If, for example, the patent owner requires the licensee to agree to continue paying royalties after the patent expires, he will not be able to get him to agree to pay as big a royalty before the patent expires." *USM Corp.*, 694 F.2d at 511.

In each of these cases the patentee's total income might be higher, the court observed, "[b]ut there is nothing wrong with trying to make as much money as you can from a patent." *Id.*

The Seventh Circuit's reasoning is entirely consistent with this Court's earlier holding in, for

example, *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 99 S.Ct. 1096, 1097, 59 L.Ed.2d 296 (1979), but avoids the artificial distinctions of *Brulotte*. In *Aronson*, petitioner had filed a patent application for a new form of keyholder. The design was simple enough to be copied unless protected by patent. While a patent application was pending, Aronson negotiated a manufacturing contract with Quick Point Pencil Co. that required a higher royalty for the first five years and a lower royalty if the patent did not issue within five years. The Eighth Circuit held that under *Brulotte*, patent law pre-empted the contract. This Court sensibly reversed, finding that the parties were fully aware in negotiating the royalty rate that a patent might not issue. 440 U.S. at 261-62. Economic realities trumped an artificial rule, as they should.

CONCLUSION

The time has come for this Court to update and harmonize the rule of *Brulotte* in keeping with sound economic principles. Specifically, the Court should replace *Brulotte's per se* rule with a rule of reason analysis.

Respectfully submitted,

DAVID L. APPLEGATE*
WILLIAMS MONTGOMERY & JOHN LTD.
6100 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 443-3200

Of Counsel:
CHARLES W. SHIFLEY
BANNER & WITCOFF, LTD.
10 South Wacker Drive
Suite 3000
Chicago, IL 60606
(312) 463-5000

GARRET A. LEACH
PRESIDENT
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
P.O. Box 472
Chicago, IL 60609
(312) 984-7764

DONALD W. RUPERT
MARSHALL, GERSTEIN & BORUN LLP
6300 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 474-6300

Counsel for Amicus Curiae
The Intellectual Property Law Association of Chicago

February 4, 2015 *Counsel of Record

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
FEB 4 - 2015
OFFICE OF THE CLERK

No. 13-720

In The
Supreme Court of the United States

STEVEN KIMBLE, ET. AL,

Petitioners,

v.

MARVEL ENTERTAINMENT, INC.,

Respondent.

On a Writ of Certiorari to The United States Court of Appeals for the Ninth Circuit

BRIEF OF INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF PETITIONERS

PHILIP S. JOHNSON, *PRESIDENT*
KEVIN H. RHODES, *CHAIR*
AMICUS BRIEF COMMITTEE
INTELLECTUAL PROPERTY
OWNERS ASSOCIATION
1501 M Street, N.W.
Suite 1150
Washington, D.C. 20005
(202) 507-4500

ROBERT P. TAYLOR
COUNSEL OF RECORD
RPT LEGAL STRATEGIES PC
2443 Fillmore Street #332
San Francisco, CA 94115
(415) 447-3975
robert.taylor@rptstrategies.com

Counsel for Amicus Curiae

TABLE OF CONTENTS

INTEREST OF AMICUS CURIAE 1

SUMMARY OF ARGUMENT 2

ARGUMENT 5

I. ANTITRUST CONCEPTS USED IN 1964 INSPIRED THE RULING IN *BRULOTTE* 5

A. The antitrust underpinnings of *Brulotte* are undeniable 5

B. The patent misuse defense, as it stood in 1964, was primarily an antitrust doctrine 8

C. *Brulotte* reflects a routine application of the misuse defense 11

II. THE RIGID ANTITRUST CONCEPTS THAT UNDERPIN *BRULOTTE* HAVE BEEN RELAXED SUBSTANTIALLY 13

A. The widespread use of *per se* rules of antitrust liability has been largely discontinued 13

B. Abolition of the presumption of market power in 2006 removed tying from the *per se* category 15

TABLE OF CONTENTS (Cont.)

C. The Department of Justice reversed its own views as to license restrictions 16

CONCLUSION 20

TABLE OF AUTHORITIES

CASES

Arizona v. Maricopa County Medical Society,
457 U.S. 332 (1982) 13

B. B. Chemical Co. v. Ellis,
314 U.S. 495 (1942) 10

Broadcast Music, Inc. v. Columbia Broad. Sys., Inc., 441 U.S. 1 (1979) 14

Brulotte v. Thys,
379 U.S. 29 (1964) ..... passim

California Dental Assn. v. FTC,
526 U.S. 756 (1999) 14

Carbice Corp. v. American Patents Corp.,
283 U.S. 27 (1931) 9

Continental T.V., Inc. v. GTE Sylvania Inc.,
433 U.S. 36 (1977) 14

Continental Wall Paper Co. v. Louis Voight & Sons Co.,
212 U.S. 217 (1909) 2

Dr. Miles Medical Co. v. John D. Park & Sons Co.,
220 U.S. 373 14

Ethyl Gasoline Corp. v. *United States*,
309 U.S. 436 (1940) 7

Illinois Tool Works Inc. v. Independent Ink, Inc.,
547 U.S. 28 (2006) ..... passim

International Salt v. United States,
332 U.S. (1947) ..... passim

Jefferson Parish Hospital Dist. No. 2 v. Hyde,
466 U.S. 2 (1984) 14, 15

Kelly v. Kosuga,
358 U.S. 516 (1959) 2

Leegin Creative Leather Products v. PSKS, Inc.
127 S.Ct. 2705 (2007) 14

Leitch Mfg. Co. v. Barber Co.,
302 U.S. 458 (1938) 10

Mercoid Corporation v. Minneapolis Honeywell Regulator Co.,
320 U.S. 680 (1946) 6, 7, 10

Morton Salt Co. v. G. S. Suppiger Co.,
314 U.S. 488 (1942) 10

Motion Picture Co. v. Universal Film Co.,
243 U.S. 502 (1917) 8, 9

NCAA v. Bd. of Regents of the University of Oklahoma,
468 U.S. 85 (1985) 14

Northern Pacific Railway Co. v. United States,
356 U.S. 1 (1958) 15

Palmer v. BRG of Georgia, Inc.,
498 U.S. 46 (1990) 6

Peter Scheiber v. Dolby Laboratories, Inc., et al, 293 F.3d 1014, 1016 (7th Cir. 2002), *cert. denied*,
537 U.S. 1109 (2002) 3

United States v. Loew's Inc.,
371 U.S. 38 (1968) 16

United States v. Paramount Pictures, Inc.,
334 U.S. 131 (1948) 15, 16

United States v. Univis Lens, Co., 316 U.S. 241 (1942) 16

STATUTES

35 U.S.C. § 261 8

35 U.S.C. § 271 (d) 15

OTHER AUTHORITIES

Brief of the United States as Amicus Curiae at 7-8, *Steven Kimble, et. al. v. Marvel Entertainment, Inc.*, No. 13-720 (Oct. 30, 2014) 5

OTHER AUTHORITIES

U.S. Department of Justice and the Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property, (1995) 18, 19

Abbott B. Lipsky, Deputy Assistant Attorney General, "Current Antitrust Division Views on Patent Licensing Practices," Remarks Before the American Bar Association Antitrust Section (Nov. 5, 1981), reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13,129 18

Federal Trade Commission, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy (2003) 17, 18

Report of the President's Commission on the Patent System, "To Promote the Progress of Useful Arts," presented to the Committee on the Judiciary, United States Senate, Subcommittee on Patents, Trademarks, and Copyrights, 90th Congress, !st Session (February 2, 1967) 17

Roger B. Andewelt, Intellectual Prop. Section Chief, Antitrust Div., Dep't of Justice, The National Productivity and Innovation Act of 1983, Remarks Before the Los Angeles Patent Law Association (Nov. 15, 1983) 18

Bruce B. Wilson, Deputy Ass't Attorney. General, U.S. Department of Justice, Patent and Know-How License Agreements: Field of Use, Territorial, Price and Quantity Restrictions, Remarks Before the Fourth New England Antitrust Conference (1970) 17

INTEREST OF *AMICUS CURIAE*

Intellectual Property Owners Association (IPO) is a trade association representing companies and individuals in all industries and fields of technology that own or are interested in U.S. intellectual property rights.[1] IPO's membership includes more than 200 companies and a total of over 12,000 individuals who are involved in the association, either through their companies or as inventor, author, executive, law firm or attorney members. Founded in 1972, IPO represents the interests of all owners of intellectual property. IPO regularly represents the interests of its members before Congress and the USPTO and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. The members of IPO's Board of Directors, which approved the filing of this brief, are listed in the Appendix.[2]

IPO submits this brief in support of Petitioners. IPO members collectively are parties to thousands of licensing arrangements reflecting a wide variety of commercial considerations. When two parties have freely negotiated an arm's length license agreement, IPO believes that they should be compelled to live up to their commitments, barring some extraordinary

---

[1] No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. The parties have consented in writing to the filing of this brief.

[2] IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

consideration of sufficient moment to set aside a lawful contract. The freedom to contract in commercially rational ways and the reliable enforceability of those contracts are among the most fundamental and valued precepts of our judicial system.

SUMMARY OF ARGUMENT

In deciding whether to overrule the 50 year old precedent established in *Brulotte v. Thys*, 379 U.S. 29 (1964), IPO urges the Court to bear in mind:

> "the overriding general policy, as Mr. Justice Holmes put it, 'of preventing people from getting other people's property for nothing when they purport to be buying it.'"

Kelly v. Kosuga, 358 U.S. 516, 520 (1959), quoting the dissent in *Continental Wall Paper Co. v. Louis Voight & Sons Co.*, 212 U.S. 217, 271 (1909). Where the parties to a patent license – for their own private purposes and in an arm's length transaction free of coercion – agree to defer payment of some portion of the total consideration until after expiration of the licensed patent(s), a rule of law that automatically allows the licensee to escape its payment obligations after enjoying all the benefits of the license clearly has the potential for unjust outcomes.

In *Brulotte v. Thys*, 379 U.S. 29 (1964), this Court held that a patent license provision for payment of royalties accruing after expiry of a licensed patent was not enforceable under any circumstances, notwithstanding that the licensee entered into the contract voluntarily and devoid of coercion. The *Brulotte* rule allows a clever licensee,

after agreeing to make payments extending beyond expiry of the patent, simply to renege on the contract at the moment the patent expires.[3]

The rationale for the *Brulotte* ruling was rooted in antitrust law and, more specifically, its loosely defined offspring, the "patent misuse" defense, as both were being applied in 1964. At that time, this judicially created defense could be invoked by the defendant in any suit for patent infringement or contract action to enforce a patent license. The misuse defense was triggered if the defendant could demonstrate efforts by the patent owner to commercialize the claimed invention in ways that had economic impact outside the precisely worded claims of the patent.

At the time *Brulotte* was decided, this Court (i) presumed that all patents conferred economic market power, (ii) preferred the widespread use of *per se* rules for determining antitrust liability over asking the lower courts to perform the hard work of a rule of reason analysis, and (iii) believed that restrictions of any kind in a patent license should be viewed as improper restraints of trade. All three of these foundational notions that underpin *Brulotte* have since been rejected or severely eroded either by legislation or by the Court itself. As a result,

---

[3] Such was essentially the fact pattern before the court in *Peter Scheiber v. Dolby Laboratories, Inc., et al*, 293 F.3d 1014, 1016 (7th Cir. 2002), *cert. denied*, 537 U.S. 1109 (2002). After carefully rejecting each of the possible grounds for applying a *per se* rule of antitrust law to ban post-expiration royalties, the appellate court nevertheless considered itself bound to follow *Brulotte*, which it characterized as "economic nonsense, imputing systematic irrationality to businessmen." *Id.* at 1020.

Brulotte has become a vestigial anachronism that should be overruled.

In *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006) (*ITW*), this Court unanimously rejected the two fundamental premises of the patent misuse doctrine – namely that market power can be presumed from the existence of a patent and that any form of tying is a *per se* violation of the antitrust laws. The *ITW* opinion acknowledges that the presumption of market power by the Court began in the patent misue context (*Id.* at 39), that procompetitive benefits often flow from much of the conduct held to be misuse in earlier times (*Id.* at 36), and that it would be "absurd" to continue to presume market power for antitrust cases in the aftermath of its rejection by Congress as a basis for a finding of patent misuse (*Id.* at 41).

IPO respectfully submits that it would be equally "absurd" to leave the *Brulotte* rule in place. Where a patent owner does not enjoy market power derived from its patent(s), a *per se* rule that condemns automatically any and all post-expiration consideration is unwarranted and may make it more difficult in some situations for patent owners to grant licenses to their patents. Moreover, such a rule undermines the basic integrity of contracts and, as noted, allows sophisticated licensees to take unfair advantage of less sophisticated patent owners.

It is possible, of course, that cases may arise in which a licensor enjoys market power because of its patent(s) and uses that market power to coerce licensees into agreeing to post-expiration royalties that injure competition. Where such power does exist and is used for anticompetitive purposes, antitrust law can readily be called upon to prevent or

redress such abuse. In reality, the vast majority of licensing transactions do not involve the exercise of market power, and the parties should be accorded the freedom necessary to contract in ways that make commercial sense for both.

ARGUMENT

I. ANTITRUST CONCEPTS USED IN 1964 INSPIRED THE RULING IN *BRULOTTE*.

A. The antitrust underpinnings of *Brulotte* are undeniable.

Contrary to the argument that Respondent is likely to advance in this case, and contrary to the views expressed by the United States in its brief opposing certiorari,[4] the decision in *Brulotte* does indeed rest specifically on antitrust principles as those principles were being interpreted in 1964. The *Brulotte* opinion, authored by Justice William O. Douglas, states unequivocally:

> "[W]e conclude that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*. If that device were available to patentees, the free market visualized for the post-expiration period would be subject to monopoly influences that have no proper place there."
>
> ...
>
> "[T]o use [the leverage of the patent] to project ... royalty payments beyond the life of the patent is

---

[4] Brief of the United States as Amicus Curiae at 7-8, *Steven Kimble, et. al. v. Marvel Entertainment, Inc.*, No. 13-720 (Oct. 30, 2014).

> analogous to an effort to enlarge the monopoly of the patent by tieing [sic] the sale or use of the patented article to the purchase or use of unpatented ones. [Citing two antitrust cases that are discussed in fn5, below]. The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when, as we have seen, the patent has entered the public domain." 379 U.S. at 32, 33.

The phrase "unlawful *per se*" in that passage referred to the analytical technique used in antitrust analysis through which business transactions could be held unlawful without regard to their motivation or economic impact.[5] It is not a term normally used in patent law. Moreover, the Court's reliance on the *Ethyl* and *Mercoid* cases in comparing post-expiration royalties to unlawful tying demonstrates further the antitrust foundation for the opinion.

---

[5] *E.g., Palmer v. BRG of Georgia, Inc.*, 498 U.S. 46 (1990) (agreement between providers of bar review courses to eliminate competition between themselves and to share revenues held *per se* illegal). The subject of *per se* rules is discussed below in Section II.A.

Both of those cases involved this Court's affirmation of findings under the antitrust laws.[6]

Well before 1964, this Court was using *per se* rules from antitrust law and the Court's then prevailing presumption of market power to shape the outer contours of permissive behavior accorded to patent owners. As noted in another opinion by Justice Douglas, *Mercoid Corporation v. Minneapolis Honeywell Regulator Co.*, 320 U.S.680, 684 (1946):

> "The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws not by the patent law. For the reasons stated in *Mercoid v. Mid-Continent Investment Co.*, ... the effort here made to control competition in this unpatented device plainly violates the anti-trust laws ...."

To whatever extent *Brulotte* can be characterized as no more than an interpretaton of the Patent Act,

---

[6] To support its unlawful tying analysis, the *Brulotte* opinion states:

> "See *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436 (1940); *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U.S. 661, 664-665, and cases cited." 379 U.S. at 33.

Notably, the *Ethyl* case was brought by the United States purely as an antitrust case under Section 1 of the Sherman Act, alleging that the defendant had used the power inherent in licensing its patents to preclude the sale of leaded gasoline to unlicensed entities. A finding in favor of the Government by the District Court was affirmed by this Court.

Mercoid was a ruling by this Court reversing the Seventh Circuit and holding the patents in question unenforceable for patent misuse, restoring an antitrust injunction in favor of the accused infringer, and remanding for a further determination of the availability of treble damages for an established violation of the antitrust laws.

as suggested in the Brief of the United States (pp. 7-8), the decision reflected a forced accommodation of patent law to the wooden principles of antitrust as they were then being applied. The Court's 2006 opinion in *ITW* traces the development of the patent misuse defense, its reliance on a presumption of market power thought to be extant in patents and copyrights, and the "intertwin[ing]" of patent misuse and antitrust law commencing with the 1947 decision in *International Salt v. U.S.* 547 U.S. at 38-45.

In any event, *Brulotte* should not be viewed as a rule of patent law. The holding, if not one of antitrust law rendering a contract provision unlawful, and therefore unenforceable, can only be one of general contract law. Nothing in the Patent Act limits the manner in which two parties, for their own account, may define the consideration to pass between themselves in exchange for the licensee's right to use a patented invention. The Patent Act states only that patents shall have the attributes of personal property. 35 U.S.C. § 261.[7]

B. The patent misuse defense itself, as it stood in 1964, was primarily an antitrust doctrine.

To appreciate how the *Brulotte* Court used antitrust law to define the permissible range of conduct accorded a patent owner, it is useful to examine the evolution of the "patent misuse" defense. This judicially crafted defense could be

---

[7] *Cf., Motion Picture Co. v. Universal Film Co.*, 243 U.S. 502, 513 (1917), where the Court by way of dicta stated that license provisions imposed by the patent owner should be tested by principles of general law, not patent law. The *Motion Picture* case is discussed more fully in Section I.B, below.

raised by a defendant accused of patent infringement and, in a few instances (*e.g., Brulotte*), by the defendant in contract actions brought to enforce licenses. The only discernible organizing principle guiding application of the misuse defense was that a patent owner who engaged in a commercial transaction that somehow had an economic impact falling outside the precise scope of the claims of the patent was at risk of being denied judicial enforcement of its property or contract rights. To borrow from the parlance used in numerous misuse decisions, the market power of the patent was being used unlawfully to "extend the monopoly" to something not covered by the patent, which in essence was a form of unlawful tying. *ITW*, 547 U.S. at 34.

Although premised on antitrust concepts and theoretically intended to preserve competition, there was rarely if ever an effort to identifiy a relevant market or examine market power, both of which today are regarded as the most basic aspects of almost any antitrust analysis. In 1964, those prerequisites were simply assumed where patents were involved. *Id.* at 38 *et seq.*

The relevant line of misuse cases began with *Motion Picture Co. v. Universal Film Co.*, 243 U.S. 502 (1917), wherein this Court held that a patent owner could not assert infringement claims against a company that exhibited unpatented films using a patented film projector in contravention of a label prohibition placed there by the manufacturer. Although the Court at that time did not employ the term "misuse," it did make clear that a claim for patent infringement – as a matter of patent law – would not lie against the use of unpatented articles.

The Court buttressed its decision by noting that the 1914 addition of the Clayton Act to the antitrust laws made it unlawful to sell goods on terms that inhibited competiton. *Id.* at 517-18.

Over the next few years, the Court became increasingly strident in its use of antitrust concepts to condemn conduct related to patents. In *Carbice Corp. v. American Patents Corp.*, 283 U.S. 27 (1931), the Court refused to find contributory infringement arising from the sale of dry ice to companies using a patented double-walled cardboard container for shipping perishable items. The Court went out of its way to emphasize what it viewed as the illegality of the conduct under the antitrust laws:

> "Relief is denied because the Dry Ice Corporation is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material used in applying the invention. The present attempt is analogous to the use of a patent as an instrument for restraining commerce which was condemned under the Sherman Anti-Trust Law ...."

Id. at 33.[8]

In *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942), the Court allowed the misuse defense to be raised by a direct infringer of the asserted patent and one unaffected by the misuse.

---

[8] Accord: *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938) (sale of emulsified asphalt used in patented process for curing concrete not contributory infringement); *B. B. Chemical Co. v. Ellis*, 314 U.S. 495, 495-498 (1942) (patent misuse barred relief even where sale of accused products had been actively promoted to practice patented process and where accused products were not staple articles of commerce).

Id. at 494. The patent owner had leased patented machines to its customers for use in a food processing line, requiring the lessees to purchase salt from the patent owner to measure the royalties due on the machines. In allowing the infringer to avoid an injunction and continue to sell infringing machines, the Court held that the misuse defense, while grounded in the need to protect competition, did not require a specific finding of violation of the antitrust laws. *Id.* at 394.

In 1946, as already noted, the Court in the *Mercoid* cases essentially abolished the doctrine of contributory infringement by holding that any effort to enforce a patent against a defendant selling something less than the full invention claimed in the patent was a *per se* violation of the antitrust laws. 320 U.S. at 684.

In 1947, the Court cited its decision in *Morton Salt* as the basis for affirming a judgment against International Salt under Section 1 of the Sherman Act for essentially the identical practice of leasing patented machines used in food processing and requiring the lessee to purchase salt. This type of tying, the Court held, was a *per se* violation of the Sheman Act. *International Salt v. United States*, 332 U.S. 392, 396 (1947); *see*, *ITW*, 527 U.S. at 39.

These cases defined the judicial environment in which *Brulotte* was decided. It was one of considerable judicial hostility to the patent system in general and to license restrictions in particular.

C. *Brulotte* reflects a routine application of the misuse defense.

The conduct most likely to be dubbed patent misuse in 1964 involved licensing or sales

arrangements that could be characterized in some fashion as unlawful tying. All of the cases discussed in the previous Section, for example, fit that mold. The patent owner either was requiring a licensee to purchase something from the patent owner or was leasing or selling a patented product or machine and requiring the purchase of unpatented products. The Court in *Brulotte* viewed the post-expiration payments as just another form of tying and therefore misuse of the patent. The patent owner, said the Court, was using the power of the patent to require the licensee to pay for something to which the patent owner was not entitled. 379 U.S. at 33.

As discussed in the next Section, most of the foundational principles supporting the misuse defense have been eroded or modified by statute. There is, however, an even more fundamental flaw with the analysis in *Brulotte*. The Court's reasoning is circular. Only if one first assumes that the patent owner should not be permitted to grant a license for the duration of the patent and spread the payments over a longer period of time can the tying analog even arguably apply. Otherwise, the post-expiration payments are simply the parties' way of providing contractually for compensaton to the patent owner. The dissenting opinion of Justice Harlan in *Brulotte* points out the difficulty in trying to distinguish between the patent misuse that the Court attaches to the licenses in that case and a slightly modified form of deferred payment that is referred to as something other than patent royalties. 379 U.S. at 34-39.

II. THE RIGID ANTITRUST CONCEPTS THAT UNDERPIN *BRULOTTE* HAVE BEEN RELAXED SUBSTANTIALLY.

Commencing in the late 1970s, many of the foundational antitrust concepts relied on by the *Brulotte* Court, either directly or by implication, were either abandoned or substantially modified. The automatic invocation of *per se* rules is no longer used with the same frequency. The presumption of market power, as noted in the preceeding discussion of the *ITW* case, has been abandoned. And an affirmative policy of promoting licensing has replaced the perceptions of the 1960 and 1970s that limits on a licensee should be viewed, in an of themselves, as restraints of trade.

A. The widespread use of *per se* rules of antitrust liability has been largely discontinued.

The use of *per se* rules in antitrust cases is essentially a rule of judicial convenience, adopted to permit a finding that certain types of conduct can be treated as facially unlawful without making a careful examination of the reasons for or the economic effects of the conduct. As the Court noted in *Arizona v. Maricopa County Medical Society*, 457 U.S. 332, 344 (1982):

> "Once experience with a particular kind of restraint enables the Court to predict with confidence that the rule of reason will condemn it, [the Court] has applied a conclusive presumption that the restraint is unreasonable. As in every rule of general application, the match between the presumed and the actual is imperfect. For the sake of business certainty and

> litigation efficiency, we have tolerated the invalidation of some agreements that a fullblown inquiry might have proved to be reasonable."

Condemnation of collaborative arrangements as *per se* violations of antitrust law was widely used prior to the late 1970s. Around that time, however, the Court began to recognize that in a complex economy, as ours had become, it was no longer sound antitrust policy to condemn agreements as *per se* unlawful without some examination of their purpose and economic effect. *See, e.g., Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 49 (1977) (nonprice vertical restraints to be tested by the rule of reason); *Broadcast Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1 (1979) (collective license of copyrights not *per se* price fixing); *NCAA v. Bd. of Regents of the University of Oklahoma*, 468 U.S. 85 (1985) (output restrictions on televising of college football games tested by rule of reason); *California Dental Assn. v. FTC*, 526 U.S. 756, 780-81 (1999) ("[T]here is generally no categorical line to be drawn between restraints that give rise to an intuitively obvious inference of anticompetitive effect and those that call for more detailed treatment."); *Leegin Creative Leather Products v. PSKS, Inc.* 127 S.Ct. 2705 (2007) (vertical price restrictions to be tested by rule of reason analysis, overruling *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373).[9]

More directly relevant to the issues here, the Court during the 1980s began to soften its views as to tying. Thus, in *Jefferson Parish Hospital Dist. No.*

---

[9] Notably, both *Continetal TV* and *Leegin* involved the overruling of earlier precedents, notwithstanding the doctrine of *stare decisis*.

2 v. *Hyde*, 466 U.S. 2 (1984), the Court held that rather than being treated as a *per se* violation of Section 1 of the Sherman Act – illegal without regard to its motivation or economic impact – tying should be evaluated more fully as to its actual economic impact.[10]

B. Abolition of the presumption of market power in 2006 removed all tying from the *per se* category.

As noted in the Summary of Argument, the Court in the *ITW* case rejected unanimously the notion that market power should be presumed from the existence of a patent copyright. The Court noted, in particular, that Congress in 1988 had added sections (4) and (5) to 35 U.S.C. § 271 (d), requiring a showing of market power before tying could be held to be patent misuse. 547 U.S. at 41.

In the aftermath of that statutory amendment and the *ITW* case, any form of tying that previously

---

[10] This was a distinct departure from the *per se* ruling in the *International Salt* case, discussed in Section I.B, *supra*. In *Northern Pacific Railway Co. v. United States*, 356 U.S. 1, 7-8 (1958), the Court relied on *International Salt* to reiterate that tying was unlawful *per se*. While ostensibly acknowledging that tying might be harmless without market power, the Court nevertheless held that a showing of market power was not essential to establishing a violation of the Sherman Act. *See also*, *United States v. Paramount, Inc.*, 334 U.S. 131, 156-159 (1948) (block booking of copyrighted films *per se* unlawful).

As applied to patents and copyrights, the *Jefferson Parish* Court continued to honor the presumption that patents and copyrights conferred market power: "the sale or lease of a patented item on condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful." 466 U.S. at 16.

might have been held to be a *per se* violation of the antitrust laws was necessarily converted to a rule of reason case, requiring the Court to examine the motivation and competitive impact of a restraint of trade. In light of these major revisions to the underlying law, it seems apparent that if *Brulotte* were before the Court today, the absence of any proof of anticompetitive impact would compel a different result.

C. The Department of Justice reversed its own views as to license restrictions.

Equally relevant to the question before the Court was the major shift that took place in the 1980s in the attitude of the Department of Justice toward patent licensing and the use of license restrictions. Beginning in the 1940s and continuing through the 1960s and 1970s, the Department of Justice challenged many types of patent and copyright license restrictions as *per se* violations of U.S. antitrust law, again without regard to the purpose or economic impact of the restriction. *E.g.*, *United States v. Univis Lens, Co.*, 316 U.S. 241 (1942) (*per se* unlawful to control licensee prices); *International Salt Co. v. United States.*, 332 U.S. 392 (1947) (requiring purchase of unpatented commodity *per se* unlawful); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948) (block booking of films *per se* unlawful); *United States v. Loew's Inc.*, 371 U.S. 38 (1968) (same).

Reflective of its hostility toward licensing restrictions, officials of the Department of Justice, starting in 1970, began to publish their well-known list of license restrictions that the agency regarded

as *per se* violations of antitrust law, a list that came to be known as the "Nine No Nos."[11] There was little question but that the effect of the misuse doctrine and the condemnation of many types of license restrictions meant that companies often would opt not to license at all rather than place their patents at risk. *See, e.g.*, 1966 Report of the Presidential Commission to Study the Patent Laws, p. 45-46 p. 45-46 (essentially endorsing the views of the Department of Justice).[12] The prevailing view, however, was that no licensing at all was preferable to allowing a patent owner to impose restrictions on a licensee that extended beyond the precise scope of the claims of the patent.

This era of antitrust was later characterized in the 2003 report of the Federal Trade Commission as one of "overzealous antitrust enforcement":

> "[A]ntitrust dominated and patents were disfavored during the 1960s and 70s. ... Overzealous antitrust enforcement culminated in the Department of Justice's 'Nine No-Nos,' a list of nine licensing practices that the Justice Department generally viewed as automatically

---

[11] *E.g.*, speech by Bruce B. Wilson, Deputy Ass't Attorney. General, U.S. Department of Justice, entitled "Patent and Know-How License Agreements: Field of Use, Territorial, Price and Quantity Restrictions," Remarks Before the Fourth New England Antitrust Conference (1970). Mr. Wilson identified nine practices that DOJ believed were either *per se* illegal or highly suspect and to be avoided.

[12] Report of the President's Commission on the Patent System, "To Promote the Progress of Useful Arts," presented to the Committee on the Judiciary, United States Senate, Subcommittee on Patents, Trademarks, and Copyrights, 90th Congress, 1st Session (February 2, 1967)

> illegal. Most now believe that antitrust's ascendency during this period lacked both a sound economic foundation and a sufficient appreciation of the incentives for innovation that patents and patent licensing can provide."

FTC Report, "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy" (2003) at p.9 [quotation marks and footnote citations omitted].

DOJ's view of patents and copyrights began to change in the 1980s, after William F Baxter was appointed Assistant Attorney General in charge of the Antitrust Division. DOJ acknowledged that license restrictions are often essential to the willingness of patent owners to allow others to practice their intellectual property.[13] By the mid-1990s, there was widespread agreement within the enforcement community that the licensing of intellectual property is normally procompetitive and highly desirable.

This shift was later reflected in the "Antitrust Guidelines for the Licensing of Intellectual Property," promulgated jointly by the Department of

---

[13] *See, e.g.*, Abbott B. Lipsky, Deputy Assistant Attorney General, "Current Antitrust Division Views on Patent Licensing Practices," Remarks Before the American Bar Association Antitrust Section (Nov. 5, 1981), reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13,129; *see also*, Roger B. Andewelt, "National Productivity and Innovation Act of 1983," Remarks Before the Los Angeles Patent Law Association 15 (Nov. 1983), available at http://bayhdolecentral.com/bremmerPDF/Remarks_by_Roger_B._Andewelt_before_the_Los_Angelos_Patent_Law_Association,_11-15-1983.pdf

Justice and the Federal Trade Commission in 1995 ("IP Guidelines"):

> "Intellectual property typically is one component among many in a production process and derives value from its combination with complementary factors. Complementary factors of production include manufacturing and distribution facilities, workforces, and other items of intellectual property. The owner of intellectual property has to arrange for its combination with other necessary factors to realize its commercial value. Often, the owner finds it most efficient to contract with others for these factors, to sell rights to the intellectual property, or to enter into a joint venture arrangement for its development, rather than supplying these complementary factors itself." § 2.3.

The IP Guidelines go on to observe, moreover, that restrictions in licenses often may be essential to facilitate such transactions:

> "Field-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible. These various forms of exclusivity can be used to give a licensee an incentive to invest in the commercialization and distribution of products embodying the licensed intellectual property and to develop additional applications for the licensed property. The restrictions may do so, for example, by protecting the licensee against free-riding on the licensee's investments by other licensees or by the licensor. They may also increase the licensor's incentive to license, for example, by protecting the licensor from

competition in the licensor's own technology in a market niche that it prefers to keep to itself." *Id.*

III. CONCLUSION

Enormous changes have taken place since 1964 in our understanding of the economics of patents and copyrights and the role that these property rights play in a complex economy. The rule in *Brulotte* reflects a simplistic, "one size fits all" approach to gauging the anticompetitive impact of post-expiration royalties. IPO urges this Court to replace the *per se* rule applied in *Brulotte* with a rule of reason approach, as the Court has done with numerous other aspects of antitrust law.

Respectfully submitted,

Philip S. Johnson,
President
Kevin Rhodes, *Chair*
Amicus Brief
Committee
Intellectual Property
Owners Association
1501 M Street, N.W.
Suite 1150
Washington, D.C. 20005
Tel: (202) 507-4500

Robert P. Taylor
Counsel of Record
RPT Legal Strategies PC
2443 Fillmore Street #332
San Francisco, CA 94115
Tel: (415) 447-3975

APPENDIX

APPENDIX[1]

Members of the Board of Directors Intellectual Property Owners Association

Steven Arnold
Micron Technology, Inc.

Edward Blocker
Koninklijke Philips N.V.

Tina M. Chappell
Intel Corp.

William J. Coughlin
Ford Global Technologies LLC

Robert DeBerardine
Sanofi-Aventis

Anthony DiBartolomeo
SAP AG

Daniel Enebo
Cargill, Inc.

Barbara A. Fisher
Lockheed Martin

Louis Foreman
Enventys

Scott M. Frank
AT&T

David A. Frey
Rolls-Royce Corp.

Darryl P. Frickey
Dow Chemical Co.

Krish Gupta
EMC Corporation

Henry Hadad
Bristol-Myers Squibb Co.

Jennifer M. Hall
Mars Inc.

Carl B. Horton
General Electric Co.

---

1. IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

Appendix

Michael Jaro
Medtronic, Inc.

Philip S. Johnson
Johnson & Johnson

Charles M. Kinzig
GlaxoSmithKline

David J. Koris
Shell International B.V.

William Krovatin
Merck & Co., Inc.

Allen Lo
Google Inc.

Thomas P. McBride
Monsanto Co.

Steven W. Miller
Procter & Gamble Co.

Micky Minhas
Microsoft Corp.

Douglas K. Norman
Eli Lilly and Co.

Elizabeth A. O'Brien
Covidien

Salvatore Pace
Praxair, Inc.

Richard F. Phillips
Exxon Mobil Corp.

Dana Rao
Adobe Systems Inc.

Kevin H. Rhodes
3M Innovative
Properties Co.

Curtis Rose
Hewlett-Packard Co.

Matthew Sarboraria
Oracle USA Inc.

Manny Schecter
IBM Corp.

Steven J. Shapiro
Pitney Bowes Inc.

Dennis C. Skarvan
Caterpillar Inc.

Daniel J. Staudt
Siemens Corp.

Brian K. Stierwalt
ConocoPhillips

Thierry Sueur
Air Liquide

Brian Suffredini
United Technologies
Corp.

James J. Trussell
BP America, Inc.

Roy Waldron
Pfizer, Inc.

Michael Walker
DuPont

BJ Watrous
Apple Inc.

Stuart L. Watt
Amgen, Inc.

Charlotte Whitaker
Motorola Solutions, Inc.

Jon D. Wood
Bridgestone Americas
Holding, Inc.

Michael Young
Roche, Inc.

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
FEB 4 _ 2015
OFFICE OF THE CLERK
SUPREME COURT, U.S.

No. 13-720

IN THE
Supreme Court of the United States

STEPHEN KIMBLE, ET AL.,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF *AMICUS CURIAE* THE LICENSING EXECUTIVES SOCIETY (U.S.A. AND CANADA), INC. IN SUPPORT OF NEITHER PARTY

BRIAN P. O'SHAUGHNESSY
COUNSEL OF RECORD
BRIAN S. SEAL
RATNERPRESTIA
1250 I Street, N.W.
Suite 1000
Washington, DC 20005
(202) 715-2898
boshaughnessy@ratnerprestia.com
bseal@ratnerprestia.com

QUESTION PRESENTED

Whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which held that a license agreement in which royalty payments for use of a patented invention accrue after the expiration of the patent term is unlawful *per se*.

TABLE OF CONTENTS

QUESTION PRESENTED i

TABLE OF AUTHORITIES iii

INTRODUCTION 1

INTEREST OF *AMICUS CURIAE* 1

SUMMARY OF THE ARGUMENT 2

ARGUMENT 2

A. Background 2

B. The Scope of the Rule Is Narrow 4

C. Subsequent Case Law Has Applied the Rule Too Broadly 5

CONCLUSION 10

TABLE OF AUTHORITIES

Aronson v. Quick Point Pencil Co.,
440 U.S. 257 (1978) 6-7

Automatic Radio Co. v. Hazeltine,
399 U.S. 827 (1950) 5

Boggild v. Kenner Prods.,
776 F.2d 1315 (6th Cir. 1985) 6-7

Brulotte v. Thys Co.,
379 U.S. 29 (1964) 2-6, 8

Pitney Bowes, Inc. v. Mestre,
701 F.2d 1365 (11th Cir. 1983) 5

Scheiber v. Dolby Labs.,
293 F.3d 1014 (7th Cir. 2002) 7

INTRODUCTION

The *per se* rule of *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) has received substantial criticism in the years since the opinion issued. Much of that criticism, however, derives not from the rule itself, but from the misapplication of the rule in subsequent case law, which has improperly expanded the scope of the rule. The Court now has the opportunity to clarify the *per se* rule, restoring it to its original—and much less controversial—boundaries.

INTEREST OF *AMICUS CURIAE*[1]

The Licensing Executives Society (U.S.A. and Canada), Inc. (LES) is the global leader in the business applications of intellectual property (IP) rights and their management, and it is devoted to standards development, education, and certification. It is an independent, non-profit, professional society that promotes best practices in IP transactions, IP protection, and IP strategy. LES counts among its members lawyers as well as experts in the IP strategy, business management, accounting,

---

[1] Pursuant to this Court's Rule 37.6, we note that no counsel for any party authored this brief, in whole or in part, nor did anyone other than the Licensing Executives Society (U.S.A. and Canada), Inc. and its counsel make any contribution, monetary or otherwise, to fund the preparation or submission of this brief. Petitioners and Respondent have consented in writing to the filing of this brief in letters that LES has lodged with the Court.

business development, supplier management, program management, sales, marketing, and IP valuation fields. Among these are representatives of innovation oriented companies from all business sectors, government agencies, and university labs. LES is a community of approximately 4000 IP management professionals, and it is part of a world-wide network (LES International or LESI) of more than 9,000 IP management practitioners in 32 sister societies.

SUMMARY OF THE ARGUMENT

As originally issued, the *per se* rule of *Brulotte* was very narrow, applying only to a specific set of circumstances. It has since been expanded by subsequent case law to capture situations expressly disclaimed in the original opinion. Absent correction by this Court, the *per se* rule will continue to render otherwise legal license agreements unenforceable when they should be upheld, both as a matter of law and as a reflection of the parties' intent.

ARGUMENT

A. Background

Brulotte arose over the sales of hop-picking machines that were covered by seven patents. *Brulotte*, 379 U.S. at 30. The terms of the sales included a flat-sum purchase price, as well as an ongoing license requiring additional annual royalty payments based on use. *Id.* at 29. The duration of the license extended beyond the date by which all seven patents expired. *Id.* at 30.

Although the lower court found that the license's extension into post-expiration territory reflected only "a reasonable amount of time over which to spread the payments for use of the patent," *id.* at 31, the Court disagreed. In doing so, it considered several terms that it found notable. In particular, "[t]he royalty payments due for the post-expiration period are, by their terms, for use during that period, and are not deferred payments for use during the pre-expiration period." *Id.* at 31. The license covered patented hop-picking machines only, and did not include any unpatented articles. *Id.* It also included restrictions on assignments and relocation of the machines, both before and after the expiration of the patents. *Id.* at 32. And, "peculiarly significant" to the Court, the annual royalty payment calculations "were the same for the post-expiration period as they were for the period of the patent." *Id.* at 31.

The Court stated that the license terms were "apt and pertinent to the protection of the patent monopoly, and their applicability to the post-expiration period is a telltale sign that the licensor was using the licenses to protect its monopoly beyond the patent period." *Id.* at 31-32. The Court then issued its holding that "[i]n light of those considerations, we conclude that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Id.* at 32.

B. The Scope of the Rule is Narrow

While issued as a *per se* rule, the *Brulotte* holding is narrow and limited to its specific set of circumstances. The holding itself is cast "in light of" the considerations identified above, suggesting that, had one or more of those conditions not been present, the holding would not have applied. If that suggestion is correct, it means that the holding might not apply to:

- "Deferred" payments made during the post-expiration period but incurred during the patent term;
- Licenses including non-patented articles;
- Licenses without restrictions on the assignment and relocation of the covered articles; or
- Royalty payment calculations that are different for the post-expiration period than the pre-expiration period.

In each case, the condition would not be a "royalty agreement that projects beyond the expiration date of the patent." For example, royalty payments that are *incurred* pre-expiration but *paid* post-expiration do not project an agreement beyond the life of the patent. They instead provide what the lower court in *Brulotte* described as "a reasonable amount of time over which to spread the payments for use of the patent." *Id.* at 31. Similarly, a license including non-patented articles could have a post-expiration term

that is not necessarily an extension of the patent term and thus not *per se* illegal, as could a license that provides different terms for the pre- and post-expiration periods. While courts might be able to find such terms impermissible in specific cases, depending on individual circumstances, the possibility remains that such terms are not impermissible in all cases.

The Court also distinguished the *Brulotte* license from one that extended beyond the life of some, but not all, of its subject patents, suggesting that a patent license might survive the expiration of one or more patents as long as at least one remains unexpired. *Id.* at 33, citing *Automatic Radio Co. v. Hazeltine*, 399 U.S. 827 (1950). In that event, a term that extends beyond the expiration of one or more patents might be attributable to the patent(s) that remain viable. While an evaluation of that license would be fact-specific, it should not fall under the *per se* bar of *Brulotte*.

C. Subsequent Case Law Has Applied The Rule Too Broadly

Despite the nuances in the *Brulotte* holding, lower courts have applied it broadly in subsequent decisions. For example, the Eleventh Circuit relied on *Brulotte* to void a license that covered both patents and trade secrets. *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1371 (11th Cir. 1983). The court explicitly rejected the argument that *Brulotte* was limited to licenses exclusively covering patent rights, stating that "[t]he licenses in that case were for 'use,' which encompasses more than just patent

rights." *Id.* That analysis, however, ignores the fact that the *Brulotte* voided the license because of the expiration of the patents; the license contained no surviving intellectual property rights. *See Brulotte*, 379 U.S. at 32 ("The contracts are, therefore, on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period."). The *Mestre* license was more akin to the one in *Hazeltine* in that it covered both expired and unexpired intellectual property rights. As explained above, the *Brulotte* Court did not consider such a situation to fall within its *per se* rule.

The Sixth Circuit similarly broadened the rule when it used *Brulotte* to void a license that required one party to file for related patents, but applied regardless of whether any patents ultimately issued. *Boggild v. Kenner Prods.*, 776 F.2d 1315, 1321 (6th Cir. 1985). Although the license thus covered unpatented articles—the licensee's first royalty payments were triggered by the filing, not issuance, of the first related patent application—the Sixth Circuit considered it a "hybrid" patent and non-patent license similar to the one in *Mestre* (and, it believed, *Brulotte*), and held that it fell within the scope of the *per se* rule, thus making the same error as the Eleventh Circuit. *Id.* at 1319. That holding runs contrary to the *Brulotte* language excluding non-patented articles from its analysis. Indeed, this Court previously noted that a license that accounts for the possibility that a patent might not issue does not fall within the *Brulotte* rule. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (1978) (enforcement of a royalty agreement based on a

contingent patent is "consistent with the principles treated in *Brulotte*"). Although *Boggild* acknowledged *Aronson*, it distinguished that case by finding that the parties in *Boggild* "assumed a high likelihood that valid patents would issue." *Boggild*, 776 F.2d at 1321. Regardless of the parties' expectations, however, the license indisputably covered unpatented articles at the time of its formation and envisioned the possibility that the articles would remain unpatented throughout the term of the license. *Id.* at 1317.

More recently, the Seventh Circuit cited *Brulotte* to void a license that covered both expired and unexpired patents. *Scheiber v. Dolby Labs.*, 293 F.3d 1014 (7th Cir. 2002). In that case, the subject license covered a United States patent that expired in 1993 and a Canadian patent that expired two years later. *Id.* at 1016. The licensee proposed license terms by which it would pay a lower royalty rate in exchange for continuing all payments through to the expiration of the Canadian patent. *Id.* Although the court would have preferred to allow the license to remain in force, it felt constrained from doing so by the *per se* rule of *Brulotte*. *Id.* at 1018 ("We have no authority to overrule a Supreme Court decision no matter how dubious its reasoning strikes us, or even how out of touch with the Supreme Court's current thinking the decision seems."). The court looked to *Aronson* for relief, but noted that *Aronson* had reaffirmed *Brulotte*, and by doing so, bound the court to adhere to (what it perceived as) *Brulotte*'s *per se* rule.

In fact, the *Scheiber* court had two separate bases to find that the license was not subject to the rule.

First, the presence of unexpired patents placed the *Scheiber* license squarely within the scope of *Hazeltine*, which *Brulotte* was careful not to disturb or capture. *See supra*, at 5. Second, the duration of the license was the result of the licensee's bargain for a lower royalty rate. The parties intended to capture the value of the patent term only, but did so over a longer period in order to lower the payment, making any post-expiration royalty payment attributable to the United States patent a "deferred payment[] for use during the pre-expiration period" such that the *per se* rule did not apply. *Brulotte*, 379 U.S. at 31. In the face of such results, the need for clarification of the *per se* rule is apparent.

Rather than clarifying the rule, Petitioners and certain *amici* have asked the Court to abandon the *per se* rule in favor of a traditional rule of reason analysis. Although LES takes no position on whether the Court should do so, we note that it is possible to do so while preserving the protections offered by the *per se* rule.

The *Brulotte* court implemented its *per se* rule to protect the public against abuse of the patent system, particularly against abuses related to impermissible extensions of the duration of a patent's limited monopoly. *Brulotte*, 379 U.S. at 33 ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones.").

Accordingly, any rule-of-reason analysis should focus on whether a post-expiration royalty provision is contrary to the public interest. Provisions likely to be deleterious to the public interest should receive a lower level of deference than those less likely to harm the public, with the highest level of deference reserved for those provisions that affect only the parties to the agreement.

In evaluating the effect of a specific provision, courts should always consider the public interest and general considerations of equity. Additional factors to consider include:

- The relative bargaining power of the parties;
- The sophistication of the parties;
- The intent of the parties and underlying commercial interests;
- The likelihood of other entrants to the relevant market post-expiration;
- The existence of commercially reasonable alternatives to the licensed product, both pre- and post-expiration;
- The complexity and cost of developing the patented technology and/or the licensed product;

- The existence and nature of any non-patent intellectual property rights exchanged by the agreement;

- The remaining term of the licensed patent at the time the license was executed; and

- The balance of benefits the respective parties have received under the license agreement at the time of review.

The above list is not exhaustive, however, and no one factor should be dispositive. In any analysis, the overriding focus should be on protecting the public, not providing a safety valve for parties to escape from the binding nature of ill-advised contracts.

CONCLUSION

Left unchecked, the ongoing expansion of *Brulotte*'s *per se* rule will unduly restrict the freedom to contract and will continue to render license agreements unenforceable when they should be upheld, both as a matter of law and as a reflection of the parties' intent. To that end, the Court now has the opportunity to return the *per se* rule to its original boundaries. In light of the considerations originally noted in *Brulotte*, a patentee's use of patent rights to anchor royalties or other obligations that project beyond the expiration date of the patent should be unlawful *per se* only when there is no well-reasoned basis for maintaining the post-expiration royalties or other obligations. Such agreements may be presumed valid unless it can be shown that the patentee is improperly leveraging the patent to

extend its monopoly beyond the expiration date in a manner deleterious to the public interest.

Respectfully submitted,

BRIAN P. O'SHAUGHNESSY
COUNSEL OF RECORD
BRIAN S. SEAL
RATNERPRESTIA
1250 I Street, N.W.
Suite 1000
Washington, DC 20005
(202) 715-2898
boshaughnessy@ratnerprestia.com
bsseal@ratnerprestia.com

Counsel for Amicus Curiae

February 4, 2015

AMICUS CURIAE BRIEF

No. 13-720

Supreme Court, U.S.
FILED
FEB - 4 2014
OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

STEPHEN KIMBLE, *et al.*,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR MEMORIAL SLOAN KETTERING CANCER CENTER, ICAHN SCHOOL OF MEDICINE AT MOUNT SINAI, THE RESEARCH FOUNDATION FOR THE STATE UNIVERSITY OF NEW YORK, THE ROCKEFELLER UNIVERSITY, THE ASSOCIATION OF AMERICAN UNIVERSITIES, THE ASSOCIATION OF AMERICAN MEDICAL COLLEGES, THE ASSOCIATION OF PUBLIC AND LAND-GRANT UNIVERSITIES, THE COUNCIL ON GOVERNMENTAL RELATIONS, AND THE AMERICAN COUNCIL ON EDUCATION AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

HARVEY M. STONE
Counsel of Record
RICHARD H. DOLAN
JEFFREY M. EILENDER
ELIZABETH WOLSTEIN
SCHLAM STONE & DOLAN LLP
26 Broadway
New York, NY 10004
(212) 344-5400
hms@schlamstone.com

Counsel for Amici Curiae

February 4, 2015

Library of Congress
Law Library

TABLE OF CONTENTS

Page

TABLE OF CONTENTS i

TABLE OF CITED AUTHORITIES iii

INTERESTS OF *AMICI CURIAE* 1

NATURE OF THE CASE AND STATEMENT OF FACTS 4

SUMMARY OF THE ARGUMENT 6

ARGUMENT 8

THE COURT SHOULD OVERRULE *BRULOTTE'S PER SE* PROHIBITION AGAINST LICENSE AGREEMENTS THAT PROVIDE FOR PAYMENT OF PATENT ROYALTIES ACCRUING AFTER THE PATENT HAS EXPIRED 8

A. Allowing Licensees To Make Royalty Payments Based On Post-Expiration Activity Promotes The Transformation Of Scientific Research Into Potentially Life-Changing Therapies And Inventions That Benefit The Public 8

1. The Commercialization Of Basic Research Is Vital To The Public's Well Being 9

Table of Contents

Page

2. The *Brulotte* Rule Constrains A Substantial Amount Of Economic Activity 12

B. Neither The Patent Statutes Nor Their Underlying Policies Justify A *Per Se* Ban On Post-Expiration Royalties 14

C. Post-Expiration Royalties Can Provide Substantial Pro-Competitive Benefits And Further The Goals Of The Patent System 17

D. Use Of Post-Expiration Royalties For Anti-Competitive Purposes Can Be Policed By Application Of Antitrust Principles 19

E. The Ninth Circuit's Expansive Reading Of The *Brulotte* Rule To Invalidate Complex Licenses That Do Not Separately Account For The Value Of Patent Rights Further Constrains The Commercialization Of Important Academic Research..... 23

CONCLUSION 26

TABLE OF CITED AUTHORITIES

Page

CASES

Arizona v. Maricopa County Medical Soc'y,
457 U.S. 332 (1982) 20

Broadcast Music, Inc. v. CBS,
441 U.S. 1 (1979) 20

Brulotte v. Thys Co.,
379 U.S. 29 (1964) ..... *passim*

California Dental Assn. v. FTC,
526 U.S. 756 (1999) 21

Carbice Corp. v. American Patents Dev. Corp.,
283 U.S. 27 (1931) 21-22

Federal Trade Commission v. Actavis, Inc.,
133 S. Ct. 2223 (2013) 19, 21

Illinois Tool Works Inc. v. Independent Ink Inc.,
547 U.S. 28 (2006) 20, 21

In re Kaplan,
789 F.2d 1574 (Fed. Cir. 1986) 15

Kimble v. Marvel Enterprises, Inc.,
727 F.3d 856 (9th Cir. 2013) 6, 16, 23, 25

Scheiber v. Dolby Labs., Inc.,
293 F.3d 1014 (7th Cir. 2002) 6, 16

Cited Authorities

Page

Singer Mfg. Co. v. June Mfg. Co.,
163 U.S. 169 (1896) 16

State Oil v. Khan,
522 U.S. 3 (1997) 20

United States v. Topco Associates, Inc.,
405 U.S. 596 (1972) 20

USM Corp. v. SPS Techs.,
694 F.2d 505 (7th Cir. 1982) 19

Virginia Panel Corp. v. Mac Panel Co.,
133 F.3d 860 (Fed. Cir. 1997) 19

CONSTITUTION, STATUTES, AND OTHER AUTHORITIES

U.S. Const., Art. I, § 8, cl. 8 14-15

35 U.S.C. § 154(a)(1) 15-16

35 U.S.C. § 154(a)(2) 16

35 U.S.C. § 154(c)(1) 16

35 U.S.C. § 200 14

35 U.S.C. § 271(d)(5) 20

Cited Authorities

Page

Philip E. Areeda, *et al.*,
Antitrust Law, vol. 10 (3d ed., 2011) 22

Roger B. Anderwelt,
Competition Policy and the Patent Misuse Doctrine, 25 Pat. Trademark & Copyright J. 41 (Nov. 11, 1982) 22

Howard Markey, "Why Not the Statute?,"
65 J. Pat. Off. Soc'y 331 (1983) 15

Note, An Economic Analysis of Royalty Terms in Patent Licenses,
67 Minn. L. Rev. 1198 (1983).....17, 18

U.S. Department of Justice & U.S. Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property (1995)
§ 2.0 19
§ 4.....19

AUTM Licensing Activity Survey: FY 2012 (2013) 13

INTERESTS OF *AMICI CURIAE*[1]

Amici are leading academic research institutions and not-for-profit associations that represent the interests of research universities, medical schools and their affiliates. The Memorial Sloan Kettering Cancer Center ("Sloan Kettering") is the world's oldest and largest private institution devoted to patient care, education, and research relating to cancer. Comprised of a basic research unit (the Sloan Kettering Institute for Cancer Research) and a patient-care unit (the Memorial Hospital for Cancer and Allied Diseases), Sloan Kettering is at the forefront of basic and clinical research into the diagnosis, treatment, and prevention of cancer. Icahn School of Medicine at Mount Sinai is a leader in medical and scientific training, biomedical research, and patient care. The School includes 14 multidisciplinary research institutes through which faculty and students engage in research designed to improve society's ability to predict, diagnose, treat, and prevent human disease. The Research Foundation for The State University of New York ("SUNY") is the largest, most comprehensive university-connected research foundation in the United States and is responsible for the evaluation, protection, licensing, and enforcement of intellectual property developed at SUNY's 64 diverse

---

1. *Amici* state that no counsel for a party authored this brief in whole or in part, and that no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *Amici* and their counsel made a monetary contribution intended to fund the preparation or submission of this brief. *Amici* state that the parties have been given notice of *Amici*'s intention to submit this brief and consented to its submission. The parties' written consents are being filed with this brief.

campuses. It was founded in 1951 and supports research in a vast range of disciplines including life sciences and medicine; engineering and nanotechnology; physical sciences and energy; social sciences; and computer and information sciences. The Rockefeller University ("Rockefeller") is a world-renowned center for research and graduate education in the biomedical sciences, chemistry, bioinformatics and physics. Founded in 1901 by John D. Rockefeller, The Rockefeller Institute for Medical Research (later renamed The Rockefeller University) was the country's first institution devoted exclusively to biomedical research. Throughout Rockefeller's history, 24 of its scientists have won Nobel Prizes, 21 have won Lasker Awards, and 20 have garnered the National Medal of Science, the highest science award given by the United States. Thirty-three Heads of Laboratory currently at the University are members of the National Academy of Sciences.

The Association of American Universities ("AAU") is an association of 62 leading public and private research universities in the United States and Canada. It was founded in 1900 to advance the international standing of U.S. research universities. The 60 AAU universities in the United States award more than one-half of all U.S. doctoral degrees and 55 percent of those in the sciences and engineering. The Association of American Medical Colleges ("AAMC") is a nonprofit educational association whose members include all 141 accredited U.S. and 17 accredited Canadian medical schools; nearly 400 major teaching hospitals and health systems; and 90 academic and scientific societies. Founded in 1876, the AAMC supports the entire spectrum of education, research, and patient care activities conducted by its member

institutions. The Association of Public and Land-grant Universities ("APLU") is a research, policy, and advocacy organization representing 238 public research universities, land-grant institutions, state university systems, and affiliated organizations. Founded in 1887, APLU is North America's oldest higher education association with member institutions in all 50 U.S. states, the District of Columbia, four U.S. territories, Canada, and Mexico. Annually, APLU member campuses enroll 4.8 million undergraduates and 1.3 million graduate students, award 1.2 million degrees, employ 1.4 million faculty and staff, and conduct $41.4 billion in university-based research. The Council on Governmental Relations ("COGR") is an association of 189 U.S. research universities and their affiliated academic medical centers and research institutes that concerns itself with the impact of federal regulations, policies, and practices on the performance of research and other sponsored activities conducted at its member institutions. COGR has been continuously involved in the development of all major financial and administrative aspects of federally-funded research. The American Council on Education ("ACE") represents all higher education sectors. As the major coordinating body for the nation's higher education institutions, ACE provides leadership and a unifying voice on higher education issues in order to influence public policy through advocacy, research, and program initiatives. Founded in 1918, ACE has approximately 1,700 members that are reflective of the extraordinary breadth and contributions of degree-granting colleges and universities in the United States.

Although *Amici* and their members do not undertake research principally for use in commercial applications,

patentable inventions often result from their research. The goals of *Amici* are to assure the utilization of such inventions for the common good and to grant licenses to encourage their development. Royalties received from such licenses are a vital source of revenue supporting the research of *Amici* or their members.

Amici seek to bring to the Court's attention the significant, negative impact that this Court's decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), has on the licensing of scientific and technological breakthroughs, by which promising research is transformed into commercial and industrial products that benefit the public. By making royalty payments that extend beyond the life of a patent *per se* illegal, *Brulotte* prohibits an important financial arrangement the unavailability of which may deter or delay the commercialization of vital scientific research.

NATURE OF THE CASE AND STATEMENT OF FACTS

This matter involves an appeal from a judgment of the United States Court of Appeals for the Ninth Circuit holding that a "hybrid" licensing agreement between Petitioner Kimble and Respondent's predecessor—one that conveyed both patent and non-patent rights—was unenforceable beyond the expiration date of the patent under *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Under a settlement agreement resolving a patent and breach of contract litigation, Marvel agreed to purchase a patent Kimble obtained on a toy that allowed users to mimic Spiderman's web-spinning abilities by shooting foam from their hands using a can strapped to the waist or wrist. In exchange for the patent, Marvel agreed to pay (i) a

lump sum payable upon execution of the settlement, and (ii) 3% of net product sales (as defined in the settlement agreement). The agreement had no expiration date on Marvel's obligation to pay the 3% of product sales. The patent was to expire in 2010. Under the settlement agreement, Kimble also transferred to Marvel certain non-patent intellectual property rights, and the parties agreed to end their pending litigation, in which Kimble had won a jury verdict and both sides had pending appeals.

After the settlement, disputes arose relating to the calculation of royalties due Kimble. Kimble sued in Arizona state court for breach of contract; Marvel removed to federal court and counterclaimed, relying on *Brulotte*, seeking a declaration that it did not have to pay the royalties under the settlement agreement after the expiration of the patent in 2010. The district court granted summary judgment for Marvel, finding that the settlement agreement was a "hybrid" agreement that conveyed both patent and non-patent rights, and that the rights were not separable as Kimble had contended, because the agreement did not distinguish between the royalties for each group. The district court thus concluded that under *Brulotte*, the royalties could not extend beyond the patent's expiration date.

The Ninth Circuit affirmed, explaining that it was required to apply *Brulotte* although the decision is "frequently criticized," "counterintuitive and its rationale arguably unconvincing." Pet. App. 2. The court explained that it was "joining our sister circuits" in holding that *Brulotte* renders unenforceable beyond the patent expiration date "hybrid" licensing agreements "encompassing inseparable patent and non-patent rights,"

"unless the agreement provides a discounted rate for the non-patent rights or some other clear indication that the royalty at issue was in no way subject to patent leverage." Pet. App. 3. Agreeing with the district court that the parties' settlement agreement was such a hybrid agreement and provided for only one royalty, the Ninth Circuit affirmed. The Ninth Circuit observed that although "patent leverage in this case was vastly overshadowed by what were likely non-patent rights," it was "bound to follow *Brulotte* and [could not] deny that it applies here." Pet. App. 25-26.

SUMMARY OF THE ARGUMENT

The Ninth Circuit articulated compelling reasons for overruling *Brulotte*. In *Brulotte*, the Court reasoned that payment of patent royalties after the patent expires unlawfully "extends the patent" beyond the fixed term provided by law, but "'[t]hat is not true.'" After a patent expires, it remains the case that "'anyone can make the patented process or product without being guilty of patent infringement,'" and the "'patent can no longer be used to exclude'" anyone from making the patented product. *Kimble v. Marvel Enterprises, Inc.*, 727 F.3d 856, 866 (9th Cir. 2013), Pet. App. 24 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1018 (7th Cir. 2002) (Posner, J.)). Merely extending the period over which royalties are paid does not change that, and "[e]xpiration thus accomplishes what it is supposed to accomplish." *Kimble*, 727 F.3d at 866, Pet. App. 24. The *Brulotte* rule is therefore "counterintuitive" and does not "reflect commercial reality or basic economics." *Id.* at 857, 866 n.7, Pet. App. 2, 25. The continued adherence to a *per se* rule that rests on an economically and conceptually incorrect understanding

of the post-expiration payment stream does not serve the policies underlying the patent laws, the interests of the contracting parties, or society as a whole. In his dissent in *Brulotte*, Justice Harlan recognized that as a matter of "economic substance" there is no meaningful distinction between a yearly minimum royalty payment during the patent term and royalty payments extending beyond the term based on the licensee's use of the patented product, and that the latter arrangement consequently involved "no misuse of patent leverage." *Brulotte*, 379 U.S. at 35-36 (Harlan, J., dissenting). Permitting payment of patent royalties that accrue after the patent expires therefore is not inconsistent with constitutional or patent law.

Important economic considerations support freely negotiated agreements that provide for post-expiration royalties. Although the total royalty payment reflects the value of the license during the patent term, payment of royalties based on post-expiration use facilitates the sharing of market risk between licensor and licensee. Thus, post-patent royalties may reflect, for the parties, an economically beneficial arrangement that is not indicative of an improper exercise of "monopoly influences." *Brulotte*, 379 U.S. at 33. As explained below by reference to the types of licenses granted by *Amici* or their members, there are substantial, socially beneficial, and pro-competitive reasons to accommodate such needs.

Since an agreement extending royalty payments into the post-expiration period does not extend the term of a patent, overruling *Brulotte* will not allow patent holders to extend a patent monopoly. If a particular licensing agreement has anti-competitive terms, the Federal Trade Commission or U.S. Department of Justice can police any

anti-competitive effects through enforcement actions in which the licensing agreement is assessed under standard antitrust analysis.

ARGUMENT

THE COURT SHOULD OVERRULE *BRULOTTE'S PER SE* PROHIBITION AGAINST LICENSE AGREEMENTS THAT PROVIDE FOR PAYMENT OF PATENT ROYALTIES ACCRUING AFTER THE PATENT HAS EXPIRED

A. Allowing Licensees To Make Royalty Payments Based On Post-Expiration Activity Promotes The Transformation Of Scientific Research Into Potentially Life-Changing Therapies And Inventions That Benefit The Public

The type of licensing engaged in by *Amici* or their members shows not only why the *per se* rule of *Brulotte* is outmoded, but how this inflexible rule interferes with transactions that are beneficial to the licensor, the licensee, and the general public. For example, several *Amici* conduct basic research in fields such as cellular biology and immunology. As part of this research, new chemical and biological compounds are identified and characterized for their effect on different types of cells or cellular responses. Some of these compounds may become useful as human therapeutics for the treatment of serious diseases. Research universities represented by other *Amici* conduct basic research that leads to technological innovations in engineering, computer science, agriculture, telecommunications, and many other areas.

Academic research institutions file patent applications to protect their scientific breakthroughs. However, the expertise, experience, and resources needed to undertake commercial development of their discoveries generally are outside the capacity and mission of these institutions. An academic research laboratory that files for a patent for a new compound, for example, typically expects to grant a license on its discovery to a company with the financial resources and business expertise to undertake the development, regulatory approval process, and marketing that is necessary to transform its scientific discoveries into drugs that treat disease. Research universities also do not typically undertake the work necessary to commercialize the inventions and discoveries of their faculty.

1. The Commercialization Of Basic Research Is Vital To The Public's Well Being

Universities and related nonprofit research institutions conduct over half of the basic research in the United States, and approximately 60% of university research is federally funded. Since passage of the Bayh-Dole Act of 1980, universities have increasingly licensed the fruits of their research to the private sector for commercialization. This university technology transfer process provides a rich return on public and private funding for basic research, in the form of countless innovative products and processes that benefit the public, create jobs, and contribute to U.S. economic competitiveness and technological leadership internationally.

The CAT scan, MRI, FluMist and many other commonly used vaccines, GPS, bar codes, Doppler radar, web browsers, and the Internet are some of the best-

known university innovations. A few examples of the diverse fruits of university research are:

- Taxol, the best-selling cancer drug in history, was developed out of research by a professor at Florida State University and has been used by more than 2 million women worldwide to fight ovarian and breast cancer.

- Zostovax, a vaccine for shingles developed out of research by faculty at the University of Colorado, promises to reduce shingles-related doctor visits in the United States each year by some 300,000 and hospitalizations by 100,000, yielding a savings of as much as $100 million spent on shingles-related care in the United States annually.

- Neupogen, a drug developed out of research at Memorial Sloan Kettering Cancer Center, has become the standard of care for cancer patients receiving chemotherapy or bone marrow transplants, and has been used by more than one million people around the world as treatment for immunosuppression caused by chemotherapy.

- Indego, a powered exoskeleton that enables people with severe spinal cord injuries to stand, walk, sit and climb stairs, was developed out of research by a team of engineers at Vanderbilt University. Its light weight, compact size, and modular design promise users an unprecedented degree of independence.

- FreezePruf, antifreeze for plants, was developed out of research by a biologist at the University of

> Alabama. FreezePruf helps commercial growers avoid crop damage due to freezes, resulting in tremendous economic benefits not only to the growers, but also to customers buying their produce at the supermarket.

Research institutions and their licensees generally structure their agreements using a combination of payment terms, including: (i) a lump-sum license issuance fee; (ii) milestone payments to be paid upon the occurrence of events during development, *e.g.*, the start or finish of different phases of clinical trials; (iii) annual fees for the use of technology; and (iv) running royalties for a fixed period of time based on commercial sales of a resulting product. Due to the difficulty and uncertainty of bringing a pharmaceutical product to market, licensees generally prefer to delay payments for as long as possible and to pay based on commercial sales of the approved drug. Research institutions, lacking their own resources to underwrite these processes, typically agree to delay receipt of royalties as licensees progress toward commercialization that can support the royalty payments.

Thus, although any one of the foregoing financial arrangements might have the same economic value, they are *not* equal to most prospective licensees from a business perspective, particularly in the world of pharmaceuticals. For example, a smaller firm may devote nearly all of its available funds to the development of a single promising drug that is a make-or-break opportunity for the company, leaving few resources to make payments up front. By contrast, a large pharmaceutical company with more varied expertise and greater resources may be better positioned to make payments while pursuing

development; but even large companies are unwilling to make substantial up-front license payments for what they view as high-risk projects. In both of these situations—which reflect the typical concerns of companies that engage in pharmaceutical-related licensing with institutions such as *Amici* or their members—the licensee may strongly prefer to defer a large portion of license payments from the development phase (generally within the life of the patent), in favor of royalties on eventual sales that may begin toward the end of the patent term and extend for years thereafter.

Allowing licensees to defer accrual of payments maximizes the potential for scientific research to be translated into life-saving drugs because it allows companies that are attempting to commercialize research the flexibility to enter into arrangements that are financially manageable for them. A blend of payment terms, for example, might accommodate the licensee's need to conserve its current financial resources and to shift some of the risk to the licensor. This may allow firms to enter the market that would otherwise be excluded and maximize the chances for successful commercialization. Under these circumstances, it is beneficial to the public for parties to be able to agree that royalties will be paid for an agreed-upon term starting with the first commercial sale, even if the royalty term extends beyond the expiration of the licensed patent.

2. The *Brulotte* Rule Constrains A Substantial Amount Of Economic Activity

The issue presented by this case has a substantial impact on the way in which academic research institutions

and licensees will structure new license agreements and perform under existing agreements. *Amici* respectfully submit that there is no sound basis to preclude one kind of contractual arrangement that gives licensing parties the flexibility to enter into agreements that will maximize the likelihood that scientific research will be commercialized and provide public benefit.

The issue presented is also of substantial importance to the public at large. Patent licensing by academic research institutions, such as *Amici* or their members, plays an important role in the nation's economy. According to a recent survey by the Association of University Technology Managers ("AUTM"), running royalties of survey respondents (comprising 193 U.S. universities, hospitals, and research institutions) increased by 30% in fiscal year 2012 over 2011, to $1.9 billion. *See* AUTM, *AUTM Licensing Activity Survey: FY 2012* 14 (2013). The total number of active license agreements reported by survey respondents now exceeds 40,000, and there are nearly 10,000 products on the market that originated in academic research laboratories. *See id.* at 14, 32.

In 2013, U.S. universities were issued more than 5,200 patents, and research performed at universities led to the formation of 818 new start-up companies. These start-up companies provide economic benefits to the nation, but they are especially important to the regions and states in which research universities are located; more than three-quarters of these new start-up companies had their primary place of business in the licensing institution's home state. A recent Biotechnology Industry Organization (BIO) study estimates of the total number of additional jobs created from university-licensed products ranged from about 7000 jobs in 1996 to 23,000 in 2010.

Congress has recognized the benefits of encouraging the grant of patent licenses by universities to small businesses, having expressed "the policy and objective of the Congress to use the patent system . . . to promote collaboration between commercial concerns and nonprofit organizations, including universities; [and] to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise . . . ." 35 U.S.C. § 200 (Bayh-Dole Act). *Brulotte* restricts universities and small businesses (as well as large companies) from entering into contractual arrangements that maximize the potential benefits of the universities' technological advancements.

Amici respectfully submit that *Brulotte*'s blanket prohibition against payment of post-expiration patent royalties should be overruled in favor of a traditional rule of reason analysis under the antitrust laws. *See* Point D, *infra*. As the type of licensing engaged in by academic research institutions demonstrates, payment of royalties based on post-expiration activities may reflect terms that make an agreement attractive and economically viable and are in the best interests of the contracting parties and consequently of the public. Facts such as these represent the antithesis of an improper exercise of market power by the patentee.

B. Neither The Patent Statutes Nor Their Underlying Policies Justify A *Per Se* Ban On Post-Expiration Royalties

Patent law is designed to "promote the Progress of Science and useful Arts" by securing to inventors, for limited times, the exclusive right to their discoveries. U.S.

CONST., Art. I, § 8, cl. 8. Although Congress has imposed limitations on patent rights, *Brulotte* does not serve to implement them. Indeed, *Brulotte* was not based on an interpretation of the patent provisions of the Constitution or patent statutes, but rather upon the judgment that post-expiration royalties necessarily violate the policy and purpose behind the limitation upon the patent term. *See* 379 U.S. at 31-32. The *Brulotte* assumption was that post-expiration royalties amounted to a leveraged use of the patent to assert "monopoly power in the post-expiration period when, as we have seen, the patent entered the public domain." *Id.* at 33; *see also id.* at 32-33 (payment of royalties after patent has expired would result in "the free market visualized for the post-expiration period . . . [being] subject to monopoly influences that have no proper place there").[2] *Brulotte* is mistaken on this central point.

Post-expiration royalties do *not* extend a patent owner's exclusive rights beyond the term of the patent. A patent grants to the owner "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States." 35 U.S.C.

---

2. It has been recognized that use of the term "monopoly" to refer to the exclusive rights conferred by a patent is not strictly correct. *See, e.g., In re Kaplan*, 789 F.2d 1574, 1578 n.3 (Fed. Cir. 1986) ("'[M]onopoly' is used in different senses in patent and antitrust law, hence its ambiguity. Because of its antitrust connotations and association with illegality in connection therewith, it often evokes negative reactions inappropriate to a dispassionate analysis of patent law problems."); 35 U.S.C. § 154(a)(1) (2014) (providing that patents grant the right to exclude other from taking certain actions); Howard Markey, "Why Not the Statute?," 65 J. PAT. OFF. SOC'Y 331, 331-33 (1983) (advocating use of statutory language).

§ 154(a)(1) (2014). This grant of exclusive rights is for a limited term. *See* 35 U.S.C. §§ 154(a)(2), 154(c)(1) (2014); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896) ("It is self-evident that on the expiration of a patent the monopoly created by it ceases to exist . . . .").

Once a patent has expired, the party that owned the patent has no legal basis to enjoin or otherwise restrain others from practicing the invention. *See, e.g., Kimble*, 727 F.3d at 866, Pet. App. 24. Thus, payment terms in a licensing agreement reflect the parties' assessment of the fair value of the use of the patent or the right to practice the invention on an exclusive basis *during* the patent term. As *Brulotte* itself recognized, the patent owner is entitled to be paid whatever amount the licensee is willing to pay. *See* 379 U.S. at 33 ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly."). An agreement to license a patent for consideration that includes royalties to be paid after the patent has expired does not extend the term of exclusive rights enjoyed by the patent owner, but instead is "a risk-shifting credit arrangement between patentee and licensee." *Scheiber*, 293 F.3d at 1017. As the Ninth Circuit stated, "'[t]he duration of the patent fixes the limit of the patentee's power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.'" *Kimble*, 727 F.3d at 866 (quoting *Scheiber*, 293 F.3d at 1017), Pet. App. 24.

C. Post-Expiration Royalties Can Provide Substantial Pro-Competitive Benefits And Further The Goals Of The Patent System

There are substantial pro-competitive business justifications for post-expiration royalties. During the initial stages of developing a new product based on new technology, both the product development and the marketing costs (as well as the uncertainty as to the value of the invention) are at their highest. *See* Note, An Economic Analysis of Royalty Terms in Patent Licenses, 67 MINN. L. REV. 1198, 1230 (1983) (hereafter "Economic Analysis") ("[U]ncertainty arises because it is difficult to predict the size of the market, how rapidly the market will grow, and the amount potential buyers will be willing to pay."). Thus, post-expiration royalties allow a licensee to delay the payment of license fees until it is in a better position to pay, opening the door to a potentially larger universe of prospective licensees.

Flexible royalty provisions also permit the parties to balance and allocate risk. When the predominant consideration for a license is fixed payments not based on sales—such as up-front payments and periodic license maintenance fees—the licensee bears the risk of product failure because its license payments are not tied to the successful commercialization of the invention. A royalty-based payment system, by contrast, allows the licensor and licensee to share this risk. Providing for a lower royalty rate, typically in exchange for a longer royalty term (that may include post-expiration), further reduces the risk to the licensee. In his dissent in *Brulotte*, Justice Harlan recognized this possible motivation for structuring a licensing agreement in this way. *See* 379

U.S. at 37-38 (Harlan, J., dissenting) ("If the farmer has no fixed estimate of his use requirements he may have good business reasons entirely unconnected with 'patent leverage' for wanting payments tied to use, and may indeed be willing to pay more in the long run to obtain such an arrangement."). As one commentator noted, the productive gains accruing to small licensees from risk-reducing royalty terms tend to promote competition in the marketplace because such terms allow them to compete with large firms that have greater resources to devote to development and can better shelter themselves from risk. *See* Economic Analysis, 67 MINN. L. REV. at 1233.

Given the nature of their missions, *Amici* or their members frequently grant licenses for early-stage technology that has not been fully developed and that is, as yet, of unknown or speculative commercial value. In such cases, their licensees face a particular risk that no viable product or process will be developed during the patent term. This risk is particularly acute with respect to pharmaceutical innovations, where development costs and failure rates are very high and many years of development, clinical trials, and regulatory review are required before a product reaches the commercial market—if it ever does. In these circumstances, the institution has no economic or market power to coerce monopolistic license terms, and the prospective licensee has strong business reasons for preferring to defer royalty payments or pay them at a lower rate over a longer period of time. The goal of the patent system is served by allowing such parties to negotiate freely the license terms that make sense to them in order to maximize the development of desirable (even life-saving) products and processes. The *per se* rule of *Brulotte* disserves this goal and serves no comparable goal of its own.

D. Use Of Post-Expiration Royalties For Anti-Competitive Purposes Can Be Policed By Application Of Antitrust Principles

Without the *Brulotte* rule, the task of policing anti-competitive licensing agreements would be where it belongs: with the federal antitrust laws. Agreements that have been shaped to yield true monopolistic effects and provide for payment of post-expiration royalties would still be proscribed by the antitrust laws under a rule of reason analysis, consistent with the approach of this Court, the enforcement agencies, and the lower courts. *See Federal Trade Commission v. Actavis, Inc.*, 133 S. Ct. 2223, 2231 (2013) ("[T]his Court has "indicated that patent and antitrust policies are both relevant in determining the 'scope of the patent monopoly' . . . that is conferred by a patent."); U.S. Department of Justice & U.S. Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property § 2.0 (1995) (hereafter Antitrust Guidelines) ("[F]or the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property."); *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) (applying antitrust-based rule of reason analysis where practice alleged to constitute patent misuse is "neither *per se* misuse" under the case law nor "specifically excluded" by statute from being considered misuse); *USM Corp. v. SPS Techs.*, 694 F.2d 505, 512 (7th Cir. 1982) ("Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty."). Indeed, the principles for evaluating license agreements under the rule of reason are well-defined. *See* Antitrust Guidelines § 4.

In some types of cases, the antitrust laws impose a more stringent *per se* analysis. Under antitrust law, "[p]er se treatment is appropriate '[o]nce experience with a particular kind of restraint enables the Court to predict with confidence that the rule of reason will condemn it.'" *State Oil v. Khan*, 522 U.S. 3, 10 (1997) (quoting *Arizona v. Maricopa County Medical Soc'y*, 457 U.S. 332, 344 (1982)); *see also Broadcast Music, Inc. v. CBS*, 441 U.S. 1, 9 (1979) ("[I]t is only after considerable experience with certain business relationships that courts classify them as *per se* violations ....'") (quoting *United States v. Topco Associates, Inc.*, 405 U.S. 596, 607-08 (1972)). *Brulotte* did not invoke judicial experience with post-expiration royalties or identify an evidentiary basis that would justify a *per se* prohibition.

More recently, the trend has been to look to economic realities, rather than *per se* rules, to identify anti-competitive conduct. In 1988, "Congress amended the Patent Code to eliminate th[e] presumption that [patent-equals-market-power] in the patent misuse context." *Illinois Tool Works Inc. v. Independent Ink Inc.*, 547 U.S. 28, 41 (2006). The amended statute provides that a tying arrangement in which licensing of a patented product is conditioned on the licensing or purchase of another product shall not constitute patent misuse "unless *in view of the circumstances*, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned." 35 U.S.C. § 271(d)(5) (emphasis added); *see also Illinois Tool Works*, 547 U.S. at 41-42 (describing 1988 amendment of Patent Code).

In *Illinois Tool Works*, this Court extended Congress's de-linking of the patent-equals-market-power presumption to the antitrust context. The Court framed the question as "whether the presumption of market power in a patented product should survive as a matter of antitrust law despite its demise in patent law," and held that "the mere fact that a tying product is patented does not support such a presumption." *Id.* at 31. Rather, based on "the congressional judgment reflected in the 1988 amendment," "tying arrangements involving patented products . . . must be supported by proof of power in the relevant market rather than by a mere presumption thereof." *Illinois Tool Works*, 547 U.S. at 42-43. More recently, in *Federal Trade Commission v. Actavis*, this Court held that reverse payment settlements in patent litigation should be evaluated under a rule of reason standard, rather than considered presumptively unlawful as the FTC had urged. *See* 133 S. Ct. at 2237. In so doing, the Court reiterated that "abandonment of the 'rule of reason' in favor of presumptive rules (or a 'quick-look' approach) is appropriate only where 'an observer with even a rudimentary understanding of economics could conclude that the arrangements in question would have an anticompetitive effect on customers and markets.'" *Id.* (quoting *California Dental Assn. v. FTC*, 526 U.S. 756, 770 (1999)). That cannot be said of the kind of licensing agreements at issue here.

If *per se* treatment of post-expiration royalties is not required under the antitrust laws, it is equally inappropriate under the doctrine of patent misuse. From its inception, the goal of the misuse doctrine has been the same as that of the antitrust laws—promotion of competition. *See, e.g., Carbice Corp. v. American*

Patents Dev. Corp., 283 U.S. 27, 33-34 (1931) (affirming dismissal of patent infringement suit and noting that the plaintiff's conduct was "analogous to the use of a patent as an instrument for restraining commerce which was condemned, under the Sherman Anti-Trust Law"). Thus, for example, there is "no offense to 'public policy' from a patent-based tying arrangement that antitrust law regards as competitively harmless or even as procompetitive." 10 PHILIP E. AREEDA ET AL., ANTITRUST LAW ¶ 1781d at 521 (3d ed. 2011); *see also* Roger B. Anderwelt, *Competition Policy and the Patent Misuse Doctrine*, 25 Pat. Trademark & Copyright J. 41, 42 (Nov. 11, 1982) (speaking as Chief of the Intellectual Property Section, Antitrust Division, U.S. Department of Justice) ("[W]e should reject improper *per se* misuse rules and prohibit conduct on economic grounds only when economic analysis demonstrates the conduct to be anticompetitive."). Indeed, the relationships between patent-owning research institutions like *Amici* or their members and their licensees illustrate the fallacy of *Brulotte*'s assumptions about market power: biomedical research institutions and medical schools do not themselves develop drugs; research universities do not create marketable products; and neither group has monopolistic leverage over the for-profit companies they rely on to transform their discoveries into commercially viable products.

This case presents a compelling opportunity for the Court to reconsider *Brulotte* and hold that freely negotiated contracts allowing for payment of post-expiration royalties should be subject to conventional antitrust analysis under the rule of reason, instead of the inflexible prohibition of *Brulotte*. Applying well-developed antitrust principles to assess whether a

particular licensing agreement constitutes patent misuse will thus rest on modern economic understanding of post-expiration royalty payments rather than *Brulotte*'s outdated assumptions.

E. The Ninth Circuit's Expansive Reading Of The *Brulotte* Rule To Invalidate Complex Licenses That Do Not Separately Account For The Value Of Patent Rights Further Constrains The Commercialization Of Important Academic Research

The Court of Appeals held—following its Circuit precedent—that licensee Marvel was not required to pay anything to the licensors after the patent expired because their settlement agreement did not provide for a separate and discounted rate for non-patent royalties paid after the licensed patent expired. 727 F.3d at 857, 864-65, Pet. App. 2, 20-21. Stated differently, because the contracting parties did not provide for a (likely artificial) division of value between the licensed patent and the non-patent elements of their transaction, *see id.*, the licensee was relieved of making *any* payments after the patent expired, since there was no "clear indication that the royalty was in no way subject to patent leverage." *Id.* at 865, Pet. App. 21. This was so even though the court conceded that "Kimble's primary leverage in negotiating the settlement was undoubtedly the jury verdict on the contract claim." Pet. App. 22.

The Ninth Circuit's expansive reading of *Brulotte* imposes another unjustified constraint on the types of licenses that *Amici* or their members often grant, which may involve the provision of, in addition to patent rights,

non-patent elements such as biological materials, scientific know-how, patient data, or trade secrets, to name a few. Similarly, some licenses include a license initiation fee for inchoate patent rights (where a patent application is pending but not yet granted). This kind of payment, which extends the payment term on the front end, also is outside the patent term. Pre-patent and post-patent term payments have distinct economic values to the licensing parties even if not separately broken down in the agreement. The mere fact that they are included in the licensing deal does not give the licensor any patent leverage.

The Ninth Circuit's interpretation of *Brulotte* requires institutions to assign separate, discounted values to the non-patent rights in complicated or "hybrid" transactions like these—which are very much the norm for institutions like *Amici* or their members—even though the discounted value may not reflect the true value of the non-patent rights, or the patent and non-patent rights may be intertwined. For example, it may be that the final form of a product that obtains FDA approval was not known at the time of the licensing agreement, because several candidates were included in the package of rights, materials, and (non-patent) know-how transferred. It is also not uncommon for therapies to have non-patent components as well as patent components. Finally, the licensor or licensee may create new intellectual property based on the licensed discovery, but under the lower court's interpretation of *Brulotte* the parties may not amend their arrangement to account for the deal's changing economics unless they ensure the strict separation of patent and non-patent rights and a discounted payment for the latter. Thus, while the contracting parties can and must agree on the basic

economic terms of their relationship, attempts to ascribe separate values to different elements in the bundle of rights would be clumsy at best and arbitrary at worst.

There is no public benefit in compelling sophisticated parties to complicated transactions—which by their nature have substantial risks of failure and economic rewards that will be realized (if at all) years in the future—to assign arbitrary values to the mix of rights being licensed, for the sole purpose of providing a "clear indication that the royalty was in no way subject to patent leverage," 727 F.3d at 865, Pet. App. 21, as apparently required under the Ninth Circuit's interpretation of *Brulotte*. If the logic of *Brulotte* compels such a rule, the constraint it places on socially beneficial transactions between sophisticated entities is another reason to overrule the case.

CONCLUSION

For the reasons stated above, *Amici* respectfully urge the Court to reverse the judgment of the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

HARVEY M. STONE
Counsel of Record
RICHARD H. DOLAN
JEFFREY M. EILENDER
ELIZABETH WOLSTEIN
SCHLAM STONE & DOLAN LLP
26 Broadway
New York, NY 10004
(212) 344-5400
hms@schlamstone.com

Counsel for Amici Curiae

Dated: February 4, 2015

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
MAR 4 - 2015
OFFICE OF THE CLERK

No. 13-720

In the Supreme Court of the United States

STEPHEN KIMBLE and MICHAEL GRABB,
Petitioners,

v.

MARVEL ENTERPRISES, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF NAUTILUS, INC. AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

DAVID LIEBERWORTH
Counsel of Record
JOHN CROSETTO
GARVEY SCHUBERT BARER
Eighteenth Floor
1191 Second Avenue
Seattle, Washington 98101-2939
(206) 464-3939
DLieberworth@gsblaw.com

Counsel for Amicus Curiae

March 4, 2015

Becker Gallagher · Cincinnati, OH Washington, D.C. 800.890.5001

TABLE OF CONTENTS

TABLE OF AUTHORITIES . ii

INTERESTS OF *AMICUS CURIAE* . 1

SUMMARY OF ARGUMENT . 2

ARGUMENT . 4

I. *Brulotte* Does Not Unreasonably Restrict Licensing Agreements . . 4

II. *Brulotte* Has Not Stifled Innovation and Strikes an Appropriate, Congressionly Sanctioned Balance of Patent Licensor and Patent Licensee Interests . . . 6

III. The Rule of Reason Would Be a Costly and Unnecessary Replacement for *Brulotte*'s Bright Line Rule 9

CONCLUSION 13

TABLE OF AUTHORITIES

CASES

Aronson v. Quick Point Pencil Co.,
440 U.S. 257 (1979) 5, 6

Automatic Radio Co. v. Hazeltine,
339 U.S. 827 (1950) 5

Brulotte v. Thys Co.,
379 U.S. 29 (1964) *passim*

Credit Suisse Securities (USA) LLC v. Billing,
551 U.S. 264 (2007) 10, 11

Drackett Chemical Co. v. Chamberlain Co.,
63 F.2d 853 (6th Cir. 1933) 8

Fashion Originators' Guild of America v. F.T.C.,
312 U.S. 457 (1941) . 8

Lear, Inc. v. Adkins,
395 U.S. 653 (1969) 5, 8

Leegin Creative Leather Products, Inc. v. PSKS, Inc.,
551 U.S. 877 (2007) 11

Northern Pac. Railway Co. v. United States,
356 U.S. 1 (1958) 12

Virginia Panel Corp. v. MAC Panel Co.,
133 F.3d 860 (Fed. Cir. 1997) 10

Zenith Radio Corp. v. Hazeltine Research, Inc.,
395 U.S. 100 (1969) 4, 5

OTHER AUTHORITIES

Hovenkamp, Antitrust Violations in Securities Markets, 28 J. Corp. L. 607 (2003) 11

F Scherer & D. Ross, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE (3d ed.1990) 11

INTERESTS OF *AMICUS CURIAE*[1]

Amicus curiae Nautilus, Inc. ("Nautilus") develops, designs, markets, and sells fitness equipment. Nautilus sells its fitness equipment under the Bowflex™, Nautilus™, Schwinn™, and Universal™ brands through retail and direct channels to consumers around the world. In creating and selling its fitness equipment, Nautilus invents and licenses patented technology. Thus, Nautilus is familiar with both the process of invention and the post-invention role that commercialization plays in bringing a nascent product to market. That latter effort is often substantial. In Nautilus's experience, rarely (if ever) does an inventor deliver ready-for-market technology. So, even after a patent is granted, companies like Nautilus often spend hundreds of millions of dollars and countless hours making the product supposedly covered by the patent a reality and then bringing it to the attention and interest of potential buyers in a way that ultimately produces sales. The work involved cannot be understated. Indeed, at least some of the *amici* submitting briefs in support of petitioners agree that the effort can be, and often is, extensive and expensive. Nautilus's interests, therefore, are representative of the many companies who develop patented technology licensed from others so it may be brought to market,

---

[1] In accordance with Supreme Court Rule 37.6, *amicus curiae* states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amicus curiae* and its counsel. Also, Nautilus has received the written consent of the parties to this proceeding to file this *amicus* brief. Those consents are submitted herewith.

and who also create the goodwill necessary to sustain that patented technology in the market long enough to make the initial investment in product development and marketing pay off.

It is Nautilus's belief that the rule that a patentee is not entitled to royalties "for use of [the invention]...in the post-expiration period" (*Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964)) strikes the proper balance between parties who only invent and those who must then commercialize those inventions. This rule also has its roots in congressionally mandated limitations on patents. Nautilus submits this brief in support of the continuation of that more than fifty-year-old rule.

SUMMARY OF ARGUMENT

While Nautilus agrees with the arguments of the United States, respondent, and those *amici* in favor of preserving *Brulotte* under principles of stare decisis and congressional intent, Nautilus will not repeat those arguments here. Nautilus instead offers the perspective of a business that routinely enters into license agreements for patent and non-patent rights as a licensee and licensor.

Petitioners and some *amici* argue that *Brulotte* unduly limits the ability of patentees and licensees to freely negotiate royalty agreements. Nautilus has not found that to be the case. Parties may extend payment of royalties without contravening *Brulotte* in no less than three ways: (1) by deferring payment of pre-expiration royalties; (2) by bundling patent rights so as to extend the accrual of royalties to the expiration of the last applicable patent; and (3) by including a

distinct royalty for non-patent rights associated with the product. As interpreted by this Court, *Brulotte* already affords patentees and licensees all the flexibility they need to bring inventions to market.

The reasons given by petitioners and other *amici* for overruling *Brulotte* do not justify rewriting patent policy, which Congress itself has declined to do. Contrary to their unsupported contentions, the rule in *Brulotte* has not stifled innovation, which has flourished in the five decades following that decision. Overruling it would simply shift the risks associated with bringing innovative technologies to market to those who take a bare invention from a patentee and put in the time and money necessary to make it commercially viable. That shift has at least the same risk of stifling technological development as that argued by petitioners and other *amici*, and is based on a logic which would lead to the absurd conclusion that legal limits can never be imposed on parties' contracts. More to the point, Congress has repeatedly been asked to revisit the patent term issue. On occasion Congress has done so, and it has spoken against the positions petitioners and other *amici* have espoused.

Finally, overruling *Brulotte* would increase the volume, burden, and expense of litigation. Whatever its supposed imperfections, *Brulotte* has been used by licensors and licensees for fifty years to distinguish the risks of and incentives for inventing from the risks of and incentives for creating goodwill when making business decisions. Changing that bedrock principle will inevitably result in greater ambiguity and thus more litigation. If the current rule (based on patent misuse policy) is replaced by a rule of reason (based on

anti-trust considerations), the outcome of licensing disputes will be less predictable and, as a result, litigation to resolve those disputes will increase and become more costly.

ARGUMENT

I. *Brulotte* Does Not Unreasonably Restrict Licensing Agreements.

Petitioners and several *amici* argue that a prohibition on post-expiration royalties prohibits flexible licensing arrangements that would otherwise have positive economic and competition effects. Not only is this inconsistent with Nautilus's experience, the argument is based on an erroneous reading of *Brulotte*.

First, consistent with patent misuse policy mandated by Congress, *Brulotte* prohibits only the accrual of royalties after the expiration of a patent. It does nothing to restrict payments for royalties accrued prior to the expiration of a patent. In other words, while a patentee may not accrue royalties based on patent use after expiration, nothing in this Court's jurisprudence (including *Brulotte*) prohibits the parties from agreeing to extend payment for pre-expiration use beyond the life of the patent. Indeed, this Court has so interpreted *Brulotte* from the outset:

> Recognizing that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date, and that *the payment of this royalty could be postponed beyond that time*, we noted that the post-expiration royalties were not for prior use, but for current use, and were nothing less than an

> effort by the patentee to extend the term of his monopoly beyond that granted by law.

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 136 (1969) (emphasis added). Parties to a license are thus free to spread the costs – and, therefore, the economic risks – associated with their contractual arrangement over a period that extends beyond the patent's term.

Second, the parties are also free to extend the royalty-producing period of the license beyond the term of the original patent either by linking it to the terms of later-issued patents built on the first one (*see Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) (allowing distinct royalties on pending patents)) or by bundling patents (*see Automatic Radio Co. v. Hazeltine*, 339 U.S. 827, 834 (1950) *overruled in part on other grounds by Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) ("The mere accumulation of patents, no matter how many, is not in and of itself, illegal")). And in *Brulotte* itself, the Court took no issue with the fact that royalties were paid after some patents in the license agreement had expired; the agreement was only unenforceable to the extent it demanded royalties for use after the last patent incorporated into the machine expired. *See Brulotte*, 379 U.S. at 30, 33-34. Such flexibility – permitted under *Brulotte* itself – provides the very added stimulus to further invention and innovation that is the policy bedrock underlying the entire reason for patents, with which the rule of *Brulotte* is therefore perfectly aligned.

Third, *Brulotte* has never been interpreted to limit, let alone bar, the payment of sums clearly associated

with rights other than those granted by a patent. As this Court said in *Aronson v. Quick Point Pencil Co.*:

> The cases and principles relied on by the Court of Appeals and Quick Point [i.e., *Brulotte*] do not bear on a contract that does not rely on a patent, particularly where, as here, the contracting parties agreed expressly as to alternative obligations if no patent should issue.

440 U.S. 257, 262 (1979). Thus, royalties in hybrid licenses that are separately and clearly identified as stemming from the use of a valid and existing trademark, trade secret or other know-how not covered by a patent plainly pass legal muster.

II. *Brulotte* Has Not Stifled Innovation and Strikes an Appropriate, Congressionly Sanctioned Balance of Patent Licensor and Patent Licensee Interests.

Petitioners and some of the *amici* contend that the rule in *Brulotte* stifles innovation and is somehow unfair to inventor-licensors. The facts and policy are otherwise.

First, while nowhere explicitly stated, petitioners and some *amici* seem to contend that the rule in *Brulotte* has adversely impacted patentable innovation. For this proposition, they offer no evidence, only theory and hypothetical problems. The facts, however, are to the contrary. This can be seen, among other ways, by looking at the pace of patent filings. Patent grants remained relatively flat from 1883 to 1964, the year

Brulotte issued, but since then have quadrupled.[2] While correlation is not necessarily causation, the fact remains that the time since *Brulotte* has been an unprecedented period of invention and innovation, a fact which petitioners and their supporting *amici* ignore.

Second, more specifically, petitioners argue *Brulotte*'s continued vitality has adversely impacted the entry of so-called breakthrough technologies into the market. Essentially, petitioners contend that the post-patent expiration royalties barred by *Brulotte* are necessary for game-changing technologies promulgated by new entrants to have a chance in a well-established field. This purely theoretical concern (for which petitioners offer no evidence) is belied by the real world facts. One need only look at the example of Apple, who entered the field against IBM's personal computers, succeeded to the point of surpassing its rival, and has since grown to one of the largest market capitalizations in the history of publically traded companies.[3]

Third, appealing to this Court to overrule *Brulotte* is simply another attempt to create new law establishing a new baseline allocation of the risk for patentees and licensees negotiating their agreement. *See, e.g.*, Brief of Biotime, Inc. at 5. This is, of course, what those who only invent (such as research institutions) want, as it would allow them to extract post-expiration royalties for an invention they have

---

[2] *See* http://wallstreetpit.com/16605-u-s-patent-activity-from-1883-to-2008/.

[3] http://fortune.com/2014/11/25/apple-700-billion/.

simply handed over to others, who then do the equally hard, expensive, and time-consuming work of further development, commercialization, and marketing and who take on significant financial and legal risks associated with manufacturing and selling a product. The patentee's gain must come at the expense of the licensee companies, who shoulder all that effort and risk and so need (and have earned) the post-expiration, royalty-free income. Overruling *Brulotte* raises the prospect that those potential licensees will decide not to take on those risks at reduced net compensation, thus stifling the very delivery of advanced technologies for which the *amici* contend.

Fourth, at bottom, the unstated premise underlying the result for which petitioners and *amici* contend is this: parties to an agreement should be able to contract as they wish, and what they agree to is nobody's business but their own. But to state the proposition is to illuminate its error. Taken to its logical end, such reasoning would undermine the bar to a licensor's ability to extract royalties for a patent found to be invalid (*see Lear, Inc. v. Adkins*, 395 U.S. 653, 667 (1969) ("It is generally the rule that licensees may avoid further royalty payments, regardless of the provisions of their contract, once a third party proves that the patent is invalid.") (citing *Drackett Chemical Co. v. Chamberlain Co.*, 63 F.2d 853 (6th Cir. 1933))) and the enforcement of contracts found to be illegal, for example under the antitrust laws (*see, e.g., Fashion Originators' Guild of America v. F.T.C.*, 312 U.S. 457, 468 (1941) (agreed refusal to deal with others who copied textile designs deemed an unlawful combination)). This, of course, is absurd and alone

should speak volumes about the wisdom of overruling *Brulotte*.

III. The Rule of Reason Would Be a Costly and Unnecessary Replacement for *Brulotte*'s Bright Line Rule.

Nautilus, like any other party to a license agreement, must face the prospect of litigation. Contractual disputes are a cost of doing business, and the risk of incurring that expense must be factored into any decision to license an invention. As a party over time to scores of license agreements, and sometimes a party to litigation, Nautilus sees a higher cost for litigation where the rule of reason determines the outcome.

Amicus The University of Massachusetts Biologic Laboratories ("MassBiologics") argues against applying *Brulotte* as an inflexible "*per se*" rule on the basis that it aggravated MassBiologics' litigation with MedImmune. University of Massachusetts Biologic Laboratories Br. 4. But MassBiologics' proposed alternative—a rule of reason—would only stimulate more litigation. Nautilus agrees that clarification from this Court on the application of *Brulotte* could be helpful to show that the rule does not eliminate flexible licensing arrangements like the contract in MassBiologics' case, which was deemed a "co-development agreement" rather than a "traditional patent license." University of Massachusetts Biologic

Laboratories Br. 9. But a rule of reason promises more litigation and more complex litigation, not less.[4]

The rule of reason is simply not as predictable as *Brulotte*'s bright line rule, on which parties have relied in contracting for decades. Some *amici* argue the Court should adopt a rule of reason borrowed from anti-trust economic analysis. But the "rule of reason" requires an analysis of the relevant business and the economic effect of the contract terms or conduct at issue. *See Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997). It is difficult to envision a determination on that basis without invoking a battle of the experts, let alone one that could predictably succeed on summary judgment.

This Court has noted that antitrust analysis makes it more difficult to predict outcomes:

> [A]ntitrust plaintiffs may bring lawsuits throughout the Nation in dozens of different courts with different nonexpert judges and different nonexpert juries. In light of the nuanced nature of the evidentiary evaluations necessary to separate the permissible from the impermissible, it will prove difficult for those many different courts to reach consistent results. And, given the fact-related nature of many such evaluations, it will also prove difficult to ensure that the different courts evaluate similar fact patterns consistently. The

---

[4] Nautilus has been a party to complex patent litigation in the past, and it is also currently a party to a license dispute involving post-expiration patent royalties.

> result is an unusually high risk that different courts will evaluate similar factual circumstances differently.

Credit Suisse Securities (USA) LLC v. Billing, 551 U.S. 264, 281-82 (2007) (citing *Hovenkamp, Antitrust Violations in Securities Markets*, 28 J. Corp. L. 607, 629 (2003)).

The injection of economic theory further complicates the analysis. Evolving (not to mention disputed) economic theory does not offer any greater predictability, and is a poor substitute for legal requirements prescribed by legislatures and courts. As noted by the dissent in *Leegin Creative Leather Products, Inc.*:

> But antitrust law cannot, and should not, precisely replicate economists' (sometimes conflicting) views. That is because law, unlike economics, is an administrative system the effects of which depend upon the content of rules and precedents only as they are applied by judges and juries in courts and by lawyers advising their clients. And that fact means that courts will often bring their own administrative judgment to bear, sometimes applying rules of *per se* unlawfulness to business practices even when those practices sometimes produce benefits.

Leegin Creative Leather Products, Inc. v. PSKS, Inc., 551 U.S. 877, 914-915 (2007) (Breyer, J., dissenting) (citing F Scherer & D. Ross, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 335–339 (3d ed.1990)).

As Justice Breyer's dissent suggested, *per se* rules benefit companies involved in litigation in ways that economic analysis does not. Similarly, as the Court said in *Northern Pacific Railway Co.*, the rule of reason forces litigants to spend immense amounts of time and money on protracted discovery in ways that a *per se* rule might not:

> This principle of *per se* unreasonableness not only makes the type of restraints which are proscribed by the Sherman Act more certain to the benefit of everyone concerned, but it also avoids the necessity for an incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries, in an effort to determine at large whether a particular restraint has been unreasonable—an inquiry so often wholly fruitless when undertaken.

Northern Pac. Railway Co. v. United States, 356 U.S. 1, 5, (1958). The rule of reason is thus a poor substitute for *Brulotte*'s bright-line rule.

CONCLUSION

For the foregoing reasons, and those submitted by respondent and other *amici* in favor of maintaining the *Brulotte* rule, Nautilus respectfully requests that the Court reaffirm *Brulotte*'s essential holding.

Respectfully submitted,

DAVID LIEBERWORTH
Counsel of Record
JOHN CROSETTO
GARVEY SCHUBERT BARER
Eighteenth Floor
1191 Second Avenue
Seattle, Washington 98101-2939
(206) 464-3939

Counsel for Amicus Curiae

AMICUS CURIAE BRIEF

No. 13-720

Supreme Court, U.S.
FILED
FEB 4 - 2015
OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

STEPHEN KIMBLE AND ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF *AMICUS CURIAE* NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION ("NYIPLA") IN SUPPORT OF PETITIONERS

ANTHONY LO CICERO,
PRESIDENT
CHARLES R. MACEDO,
CO-CHAIR OF THE
COMMITTEE ON AMICUS
BRIEFS
NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION
c/o AMSTER, ROTHSTEIN,
& EBENSTEIN LLP
90 Park Avenue
New York, New York 10016
(212) 336-8000

JEFFREY I. D. LEWIS
Counsel of Record
SCOTT B. HOWARD
PATTERSON BELKNAP WEBB
& TYLER LLP
1133 Avenue of the Americas
New York, New York 10036
(212) 336-2000
jidlewis@pbwt.com

Attorneys for Amicus Curiae
The New York Intellectual
Property Law Association

(Additional Counsel Listed on Signature Page)

TABLE OF CONTENTS

INTEREST OF AMICUS CURIAE 1

INTRODUCTION 2

SUMMARY OF THE ARGUMENT 5

ARGUMENT 8

I. *Brulotte* Is At Odds With This Court's Other Precedent 9

II. The Market Power Presumption Has Changed Since *Brulotte*, Undermining Its Reasoning 11

III. The *Per Se* Rule of *Brulotte* Should Be Retired In Favor of a Weighing of Relevant Facts 13

IV. *Brulotte* Is Based on an Anachronistic View of the Law Pre-*Lear* 18

CONCLUSION 20

TABLE OF AUTHORITIES

Page(s)

Cases

Aronson v. Quick Point Pencil Co.,
440 U.S. 257 (1979) ..... *passim*

Automatic Radio Co. v. Hazeltine Research, Inc.,
339 U.S. 827 (1950) ..... *passim*

Brulotte v. Thys Co.,
379 U.S. 29 (1964) ..... *passim*

Illinois Tool Works Inc. v. Independent Ink, Inc.,
547 U.S. 28 (2006) 5, 12-13

Lear v. Adkins,
395 U.S. 653 (1969) 6, 18

Princo Corp. v. Int'l Trade Comm'n,
563 F.3d 1301 (Fed. Cir. 2009),
vacated and aff'd on other grounds by 616 F.3d 1318 (Fed. Cir. 2010) (en banc), *cert. denied*, -- U.S. --, 131 S.Ct. 2480 (2011) 18

Scheiber v. Dolby Labs., Inc.,
293 F.3d 1014 (7th Cir. 2002) 16

U.S. Philips Co. v. Int'l Trade Comm'n,
424 F.3d 1179 (Fed. Cir. 2005) 18-19

United States v. Loew's, Inc.,
371 U.S. 38 (1962) 5, 11

USM Corp. v. SPS Techs., Inc.,
694 F.2d 505 (7th Cir. 1982) 16

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969) ..... *passim*

Zila, Inc. v. Tinnell, 502 F.3d 1014 (9th Cir. 2007) 6, 17

Statutes & Rules

35 U.S.C. § 271(d)(5) 5

Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5)) 12

Other Authorities

Antitrust Modernization Commission, Report and Recommendations, April 2007 http://govinfo.library.unt.edu/amc/report_recommendation/toc.htm (visited on 1/25/2015) 13

F. Suarez & G. Lanzolla, *The Half-Truth of First-Mover Advantage*, Harvard Bus. Rev., p. 121 (Apr. 2005) 14

Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953 (2005) 16

Harold See & Frank M. Caprio, the Trouble with *Brulotte*: The Patent Royalty Term and Patent Monopoly Extension, 1990 Utah L. Rev. 813 (1990) 15

Herbert Hovenkamp, *Patents, Property, and Competitive Policy*, 34 J. Corp. L. 1243 (2009) 15

Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. AM. L. 487 (2011) 15

Kelly Hershey, *PATENT MISUSE: Scheiber v. Dolby Laboratories, Inc.*, 18 Berkeley Tech. L.J. 159 (2003) 14

Michael Koenig, Note, *Patent Royalties Extending Beyond Expiration: An Illogical Ban From Brulotte to Scheiber*, 2003 Duke L. & Tech. Rev. 5 (2003) 15

10 Phillip E. Areeda, Einer Elhauge & Herbert Hovenkamp, Antitrust Law: An Application of Antitrust Principles and Their Appliction § 1782c (2004) 14

Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325, (2005) 16

Richard Gilbert & Carl Shapiro, Antitrust Issues in the Licensing of Intellectual Property: the Nine No-No's Meet the Nineties, 1997 Brookings Papers on Econ. Activity, Microeconomics 283 (1997) 15

T. Rayna & L. Striukova, *The Curst of the First-Mover: When Incremental Innovation Leads to Radical Change*, 1 Int. J. Collaborative Enterprise 4 (2009) 14

Thomas Cheng, *Putting Innovation Incentives Back in the Patent-Antitrust Interface*, 11 Nw. J. Tech. & Intell. Prop. 385 (2013) 14

U.S. Dept. of Justice & Federal Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 122 (2007) 15

INTEREST OF AMICUS CURIAE

This brief is respectfully submitted on behalf of the New York Intellectual Property Law Association (the "NYIPLA" or "Association") as *amicus curiae* in support of overruling *Brulotte v. Thys Co.*, 379 U.S. 29 (1964),[1] and with the consent of the named parties.[2] The NYIPLA is a bar association of more than 1,300 attorneys who practice in the area of patent, copyright, trademark, trade secret and other intellectual property ("IP") law.

The Association is one of the largest regional IP bar associations in the United States, and its members include in-house counsel serving businesses and other organizations that deal with IP rights in all technologies and disciplines, as well as

---

[1] Pursuant to Sup. Ct. R. 37.6, the NYIPLA and its counsel represent that they have authored the entirety of this brief, and that no person other than the amicus curiae or its counsel has made a monetary contribution to the preparation or submission of this brief. The arguments made in this brief were approved on February 2, 2015 by an absolute majority of the officers and members of the Board of Directors of the NYIPLA, including any officers or directors who did not vote for any reason including recusal, but do not necessarily reflect the views of a majority of the members of the Association, or of the law or corporate firms with which those members are associated. After reasonable investigation, the NYIPLA believes that no officer or director or member of the Amicus Briefs Committee who voted in favor of filing this brief, nor any attorney associated with any such officer, director or committee member in any law or corporate firm, represents a party to this litigation. Some officers, directors, committee members or associated attorneys may represent entities, including other *amici curiae*, which have an interest in other matters that may be affected by the outcome of this litigation.

[2] Pursuant to Sup. Ct. R. 37.2(a), the written consents to this filing from all parties are submitted herewith.

attorneys in private practice who represent both IP owners and their adversaries (many of whom are also IP owners). The Association's members represent inventors, entrepreneurs, venture capitalists, businesses, universities, and industry and trade associations, and they regularly participate on behalf of all sides in patent licensing and on behalf of both plaintiffs and defendants in patent litigation. In those patent litigations, defenses of unenforceability for patent misuse and affirmative antitrust counterclaims predicated upon improper use of patent "leverage" – such as those addressed in the instant case – are frequently asserted.

INTRODUCTION

The Association supports overturning the *per se* misuse presumption of *Brulotte,* a position that antitrust enforcement agencies and most legal scholars and economists agree has outlived whatever utility and economic justification it originally might have possessed. *Brulotte* held, more than fifty years ago, that any license of a United States patent that requires payment of royalties *accruing* after expiration of the patent (or, in the case of multiple patents, after expiration of the last to expire patent) for devices sold subject to that license is presumed to represent an impermissible temporal expansion of the patentee's right to exclude and, accordingly, renders both the royalty obligation and the licensed patents *per se* unenforceable under the doctrine of patent misuse, without regard to whether that

license agreement was or was not coercively imposed.[3]

Brulotte, however, is out of date and at odds with other decisions of this Court. As discussed, *infra*, several federal courts and commentators have noted the difficulties of harmonizing *Brulotte* with this Court's decisions in *Automatic Radio*[4] (decided some fourteen years before *Brulotte*) and *Zenith*[5] (decided about five years after *Brulotte*). Like *Brulotte*, both *Automatic Radio* and *Zenith* involved package licenses, *i.e.*, licenses for more than just United States patent rights. Unlike *Brulotte*, however, both cases squarely rejected any application of either a theory of tying one patent to another or a *per se* rule of unenforceability, and each mandated a rule of reason inquiry into whether the packages had been coercively imposed.

The *Zenith* decision sets forth an explanation for why it differs from *Brulotte*. But the differences

---

[3] *Brulotte*, 379 U.S. at 33 ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by [tying] the sale or use of the patented article to the purchase or use of unpatented ones. The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when, as we have seen, the patent has entered the public domain.")

[4] *Automatic Radio Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950).

[5] *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

also are starkly drawn in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), where this Court determined that it would again eschew the *per se* approach of *Brulotte* for a license that covered a pending patent application "packaged" together with know-how and the royalty rate changed depending on whether a patent issued.

These decisions, the Association submits, are good law; they show that a patent license should not be deemed *per se* unenforceable if there are accruals of royalties for sales after patent expiration but, instead, there should be an appropriate analysis of the relevant underlying facts.

Courts, however, have believed themselves constrained by *Brulotte*, to the extent that they have disregarded or given insufficient credit to these other decisions. As noted in *Aronson*, for instance, there may be reasons to "place[] a significant value on exploiting the basic novelty of the device, even if no patent" ultimately exists (*Aronson*, 440 U.S. at 261-62), and so courts should be free to consider the reasonableness of post-expiration accrual as part of a commercially-viable agreement without having to presume that such agreements are *per se* inappropriate.

The Association respectfully submits that this Court should abrogate the *Brulotte* rule of *per se* unenforceability of an agreement to calculate royalties based on sales after expiration on the last patent rights granted in a patent license. Instead, courts should turn to modern economic theory in assessing whether or not the agreement is coercive and should not be enforced.

SUMMARY OF THE ARGUMENT

Brulotte is a prime example of outdated decisions that survive because of inertia, long after the reasoning behind them has been overruled or eviscerated. The reasoning of *Brulotte* and the strict *per se* rule it applied –

(a) contrast sharply and antagonistically with the principles announced and applied by this Court in *Automatic Radio*, *Zenith* – the only decisions of this Court which have directly addressed the issue of whether "package licensing" in and of itself can give rise to a holding of unenforceability for misuse – and *Aronson*;

(b) were undermined when the market power presumption set forth in the 1962 *Loew's* decision[6] was eroded by (i) Congress' 1988 enactment of 35 U.S.C. § 271(d)(5), and (ii) this Court's 2006 *Independent Ink* decision[7];

(c) make no economic sense, as Justice Harlan perceived in his *Brulotte* dissent and virtually every competent antitrust economist has noted at some point over the last 50 years (379 U.S. at 36-38);

---

[6] *United States v. Loew's, Inc.*, 371 U.S. 38 (1962).

[7] *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).

(d) do not comport with Justice Blackmun's concurrence in *Aronson*, where he looked into the underlying facts of the licensed patent application that had a different royalty rate if no patent issued and concurred that the "case can meaningfully be distinguished from *Brulotte*" (440 U.S. at 266); and

(e) represent a by-gone legal era, as the product of a perceived need to shoehorn *Brulotte* into one of the exceptions to the licensee estoppel doctrine – a doctrine abrogated five years after *Brulotte* in *Lear v. Adkins*[8] – and therefore has outlived its relevance.

And yet *Brulotte* nevertheless remains as the over-arching decision on the subject, one that at least three federal appeals court panels have criticized as leading to improper rules but noting that they are powerless to alter without further action by this Court. Perhaps those courts have over-read *Brulotte* to the exclusion of this Court's other precedent (as some have argued[9]) or perhaps they have correctly read it to be controlling (as others argue), but in either event it is time for *Brulotte* to be overruled.

Logic demands that any allegedly improper expansion of the exclusionary power of a packaged

---

[8] 395 U.S. 653 (1969).

[9] *E.g., Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1022 (9th Cir. 2007), *see id.* at 1019 & note 4.

patent should not be evaluated under a *per se* standard. The test that this Court employed in both *Automatic Radio* and *Zenith* – whether the package had been acceptable to the licensee as a matter of convenience and sound business judgment or whether, to the contrary, it had been forced upon the licensee with an impermissible use of market power – should remain the controlling standard for establishing whether a patent has been misused.

In the present case, the district and appellate courts were constrained by *Brulotte*. The facts of the instant case, however, are distinguishable from *Brulotte* in several important respects and, but for the *per se* prohibition of *Brulotte*, those courts would have been justified in applying a far different legal analysis based upon the substantive agreement being reviewed.

The continuing payments based upon sales of the Web Blaster toy arguably could be construed as primarily consideration for selling the toy regardless of when the Kimble patent expired, *i.e.*, as a technology license as settlement for theft of an idea consistent with the jury's finding that Marvel breached its oral contract related to the concept disclosure. The failure to include such an explicit statement or indicator in the contract left an opportunity for Marvel to challenge the Settlement Agreement based upon *Brulotte*. A22. Although the patent was included as part of the Web Blaster litigation settlement and therefore transferred as part of the Settlement Agreement, A6 & A30, in reality Marvel already had a court decision that it did not infringe the Kimble patent (vacated as part

of the agreement for settlement) but the jury held that Marvel was liable for using the underlying Web Blaster toy concept in breach of oral contractual obligations. A5. Pursuant to the Settlement Agreement, therefore, Marvel paid a license rate of 3%, lower than the 3½% royalty set by the jury for Marvel's contractual breach. A21. As the court of appeals noted, on these facts "[t]he patent leverage in this case was vastly overshadowed by what were likely non-patent rights, and Kimble may have been able to obtain a higher royalty rate had the parties understood that the royalty payments would stop when the patent expired." A25. But, the court of appeals concluded, "[w]e are bound to follow *Brulotte* and" therefore affirmed the district court's *Brulotte* based decision. A25-26.

The court of appeals in this case explicitly noted that it applied *Brulotte* reluctantly. In fact *Brulotte,* has been criticized extensively by several courts of appeals and district courts, which have emphasized that it is time for the *per se* standard to be set aside and for courts to be freed to actually consider the relevant underlying facts. This Court should therefore reverse the decision of the court of appeals in this case and bring patent licensing into accord with modern economic theory and antitrust law by overruling the *per se* presumption of *Brulotte.*

ARGUMENT

The merits brief of the Petitioner presents the background on the relevant cases, and so the Association will not repeat the detail of each holding

in this submission beyond what may be necessary to highlight its arguments.

I. *Brulotte* Is At Odds With This Court's Other Precedent

In *Automatic Radio* this Court considered a "licensing agreement ... characterized by the district court as essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties ... regardless of use of the patents" (339 U.S. at 8). Justice Minton, writing for the majority, stated "The court of appeals reasoned that since it would not be unlawful to agree to pay a fixed sum for the privilege to use patents, it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege." *Id.*

The Court reasoned that "[s]ound business judgment could indicate that such payment [*i.e.,* royalties according to an agreed percentage of the licensee's sales] represents the most convenient method of fixing the business value of the privileges granted by the licensing agreement." *Id.* at 834. Accordingly, the *Automatic Radio* decision held that royalties accruing based upon post-expiation sales is not *per se* an inherent extension of the patent monopoly. *Id.*

Similarly, in *Zenith* the package license agreement, covering hundreds of patents required royalties on the licensee's total radio and television sales, whether or not the licensed patents were used in those products. 395 U.S. at 134. That decision

characterized *Brulotte* as being decided in "a particularized context" of not using a "patent to levy a charge for making, using, or selling products not within the reach of the monopoly granted by the Government." *Id.* at 136-37. The *Zenith* decision then focused on the *Automatic Radio* decision's evaluation of sound business judgment (*id.* at 137-38) to hold:

> "The Court's opinion in *Automatic Radio* did not deal with the license negotiations which spawned the royalty formula at issue, and did not indicate that [Hazeltine] used its patent leverage to coerce a promise to pay royalties on radios not practicing the learning of the patent. No such inference follows from a mere license provision measuring royalties by the licensee's total sales even if, as things work out, only some or none of the merchandise employs the patented idea or process, or even if it was foreseeable that some undetermined portion would not contain the invention. It could easily be, as the Court indicated in *Automatic Radio*, that the licensee as well as the patentee would find it more convenient and efficient from several standpoints to base royalties on total sales than to face the burden of figuring royalties based on actual use. If convenience of the parties, rather than patent power, dictates the total sales royalty provision, there are no misuse

> of the patents and no forbidden conditions attached to the license." *Id.* (footnote omitted).

The *Aronson* decision similarly cabined *Brulotte* – and did so based upon a factual review. As Justice Blackmun's concurrence in *Aronson* noted, the factual differences among the cases show that each "case can meaningfully be distinguished." *Aronson,* 440 U.S. at 266 (Blackmun, J., concurring). By looking at the transaction underlying a dispute and its sound business judgment, instead of applying a *per se* test for misuse based upon the dates royalties are accrued, *Aronson* and *Brulotte* should have indicated that a *per se* rule is not the correct test. Concluding that there may have been a role for the pending patent application in setting a 5% royalty rate based upon a potential patent, the Court in *Aronson* concluded that it did not play any role in setting a 2½% royalty indefinitely in the absence of a patent. 440 U.S. at 265. Therefore, the Court concluded, there was no basis that "justifies relieving Quick Point of its contract obligations." *Id.* at 264.

II. The Market Power Presumption Has Changed Since *Brulotte*, Undermining Its Reasoning

Under the 1962 *Loew's* decision applicable when *Brulotte* was decided in 1964, a patent created the presumption of market power.[10] By 1988, however, Congress had overturned this presumption

---

[10] *See, e.g., Loew's*, 371 U.S. at 45 ("The requisite economic power is presumed when the tying product is patented or copyrighted.").

and enacted a statute requiring proof of actual market power to establish a patent misuse defense based on patent tying. Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5)).[11]

Similarly, in 2006 the Court decided the *Independent Ink* case, holding that plaintiffs in patent tying cases must prove and may not presume market power. 547 U.S. at 31, 42-43. In light of the 1988 amendment the Court concluded that tying arrangements involving patented products should be evaluated under the standards applied to non-patent tying cases "rather than under the *per se* rule" such that there is no specific unique rule for patents, concluding that "[w]hile some arrangements are still unlawful, ... that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption thereof." 547 U.S. at 42-43

---

[11] "(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned."

(internal citation omitted). This decision reached the appropriate result, and was lauded as "clearly correct" by the 2007 Antitrust Modernization Commission, which noted that it was also consistent with statements by the Commission's witnesses and commentators.[12] Despite *Independent Ink*, however, the *Brulotte* rule continues to be applied as the controlling precedent.

III. The *Per Se* Rule of *Brulotte* Should Be Retired In Favor of a Weighing of Relevant Facts

As the Court has decided in other cases, such as *Automatic Radio*, *Zenith* and *Aronson*, the issue of whether or not patent misuse exists should be viewed through the prism of what constitutes *sound business judgment*. Post expiration royalty accruals, for instance, could represent a convenient method of assigning a business value to a license or other transaction (*e.g.*, *Automatic Radio*, 339 U.S. at 834.)

For instance, royalties based upon sales after patent expiration could – in certain contexts – represent a way of accounting for the first mover advantage, the role that being the first to launch a product has in obtaining and maintaining market share once competition occurs after patent expiration. For instance, in a licensing negotiation one side may argue that a patent has real world benefits that extend beyond the life of the patent

---

[12] Antitrust Modernization Commission, Report and Recommendations, April 2007 at 105 available at http://govinfo.library.unt.edu/amc/report_recommendation/toc.htm (visited on 1/25/2015).

while the other argues that there is no first mover advantage in that particular market;[13] one sound way to resolve the dispute is to postpone fully accruing royalties until the actual first mover advantage can be measured against potential competition, *i.e.*, by royalties on sales that occur after patent expiration. The *Brulotte* standard, however, proscribes this natural compromise. Indeed, it has been interpreted to forbid all post-expiration royalty provisions – even those contained in license and assignment agreements that are premised on sound business judgment.

Many commentators and courts have criticized the *Brulotte* standard, noting that "post-expiration royalties merely amortize the price of using patented technology"[14] and "do not represent

---

[13] Economists have attempted to analyze factors that can affect whether a first mover advantage is applicable. *E.g.*, F. Suarez & G. Lanzolla, *The Half-Truth of First-Mover Advantage*, Harvard Bus. Rev., p. 121, 123-24 (Apr. 2005); T. Rayna & L. Striukova, *The Curst of the First-Mover: When Incremental Innovation Leads to Radical Change*, 1 Int. J. Collaborative Enterprise 4 (2009).

[14] 10 Phillip E. Areeda, Einer Elhauge & Herbert Hovenkamp, Antitrust Law: An Application of Antitrust Principles and Their Application § 1782c, at 492 (2004); *see* Thomas Cheng, *Putting Innovation Incentives Back in the Patent-Antitrust Interface*, 11 Nw. J. Tech. & Intell. Prop. 385, 415 (2013) ("This approach overlooks the fact that the size of the patentee reward is not determined by one patent exploitation practice, but by the overall mix of exploitation practices employed by a patentee."); Kelly Hershey, *PATENT MISUSE: Scheiber v. Dolby Laboratories, Inc.*, 18 Berkeley Tech. L.J. 159, 174 (2003) ("... the Supreme Court needs to resolve the issue, and hopefully replace *Brulotte*'s *per se* rule with a rule of reason approach."); Michael Koenig, Note, *Patent Royalties Extending*

(*footnote continued ...*)

an extension in time of the patent monopoly."[15] The U.S. antitrust enforcement agencies also have noted that it is "possible that collecting royalties over a longer period of time than the patent grant will reduce the deadweight loss associated with a patent monopoly and allow the patent holder to recover the full value of the patent, thereby preserving innovation incentives."[16] Economists too have called *Brulotte*'s rule "flawed," and that "allocative efficiency considerations should permit a licensor and licensee to agree to longer royalty terms."[17]

Beyond Expiration: An Illogical Ban From Brulotte to Scheiber, 2003 Duke L. & Tech. Rev. 5, 8 ("Given the economic and logical nonsense of *Brulotte*, and more importantly, the perversity of its effect on public policy, it is clearly an undesirable rule."); Michael Koenig, Patent Royalties Extending Beyond Expiration: An Illogical Ban from Brulotte to Scheiber, 2003 Duke L. & Tech. Rev. 5 (2003); *see also* Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. AM. L. 487 (2011); Herbert Hovenkamp, *Patents, Property, and Competitive Policy*, 34 J. CORP. L. 1243 (2009).

[15] Harold See & Frank M. Caprio, The Trouble with *Brulotte*: The Patent Royalty Term and Patent Monopoly Extension, 1990 Utah L. Rev. 813, 814, 851 (1990).

[16] *E.g.*, U.S. Dep't of Justice & Federal Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 122 (2007).

[17] Richard Gilbert & Carl Shapiro, Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties, 1997 Brookings Papers on Econ. Activity, Microeconomics 283, 322 (1997).

Judges also have criticized *Brulotte* in their scholarly writings,[18] and decisions. For instance, in dissenting from the *Brulotte* decision Justice Harlan wrote that the majority failed to understand the "substantive economic effect" of the provisions.[19] Additionally, the Seventh Circuit questioned whether obtaining post-expiration royalties "really 'extends' the patent,"[20] noting that *Brulotte* has been "severely, and as it seems to us, with all due respect, justly, criticized" and that extending royalties is just "a risk-shifting credit arrangement between patentee and licensee."[21] The Ninth Circuit also challenged *Brulotte*, stating that "many courts and commentators have found" *Brulotte*'s reasoning "economically unconvincing" but conceding that "[n]o matter how unconvincing *Brulotte*'s foundation may

---

[18] *See* Frank H. Easterbrook, *Contract and Copyright*, 42 HOUS. L. Rev. 953 (2005); Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. MARSHALL REV. INTELL. PROP. L. 325, 331-32 (2005) (characterizing the *Brulotte* holding as "dubious" and "particularly anomalous," dealing with a "detail" "that merely alters the timing of the royalty payment.").

[19] 379 U.S. at 37.

[20] *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 510-11 (7th Cir. 1982).

[21] *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) ("paying royalties after the patent expires does not extend the duration of the patent either technically or practically, because ... if the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower.").

be ... we are bound to apply its holding if it applies to the case before us."[22]

In the current case, the Government took the position that *certiorari* should not be granted, arguing that all post-expiration payments would contravene "the public's unfettered access to patented inventions after the expiration of the patent term," and therefore the *Brulotte* presumption should continue. Brief of the United States as Amicus Curiae in opposition to *certiorari* (US *Cert.* Brief) at p. 8. This argument reflects a fundamental misunderstanding. *Brulotte* does not affect whether the ***public*** has access to patented inventions after the patent term – the *per se* presumption of *Brulotte* only involves the relationship with a single, contracting party (who presumably will now face unrestrained competition whether or not *Brulotte* creates an applicable presumption); the public as a whole ***always*** has access to the technology after patent expiration. Therefore, absent some showing of coercion, parties should be free to contract as they please – in other words, there should be no *per se* presumption of misuse.

At core, the issue of whether *Brulotte* should be overruled ought to focus on the evolution of law, and its role in patent licensing vis-à-vis other areas of law, in which there is no *per se* presumption of market power. The *per se* standard of *Brulotte* should be retired.

---

[22] *Zila*, 502 F.3d at 1020; *see id.* At 1019 & note 4; *see also* App. 25-26.

IV. *Brulotte* Is Based on an Anachronistic View of the Law Pre-*Lear*

Although there is a natural instinct to uphold precedent, *Brulotte* was based upon an anachronistic view of patent law – one that underwent a sea change only five years later in *Lear v. Adkins*. In 1964, when *Brulotte* was decided, a licensee typically was estopped from challenging the validity of a licensed patent.[23] That doctrine of licensee estoppel was abrogated in *Lear*, although the federal appellate courts were slow to realize its implications.

In 2005, however, the Federal Circuit decided *U.S. Philips*,[24] and articulated how Lear's elimination of licensee estoppel necessarily affected the law of package licensing. As Judge Bryson explained in *U.S. Philips* (*id.*, at 1190 n.3):

> The effect of a nonexclusive license was different before the Supreme Court in *Lear* ... abolished the patent doctrine of licensee estoppel. Before *Lear*, a

---

[23] Notably, the grant of *certiorari* in *Automatic Radio* encompassed both misuse and licensee estoppel issues. Justice Minton's opinion for the Court, over the dissent of Justice Douglas, discusses both issues, ruling that Automatic Radio had failed to bring itself within any of the pertinent judge-made exceptions to estoppel. 339 U.S. at 839.

[24] *U.S. Philips Co. v. Int'l Trade Comm'n*, 424 F.3d 1179 (Fed. Cir. 2005), *adhered to in Princo Corp. v. Int'l Trade Comm'n*, 563 F.3d 1301 (Fed. Cir. 2009), *vacated and aff'd on other grounds by* 616 F.3d 1318 (Fed. Cir. 2010) (en banc), *cert. denied*, -- U.S. --, 131 S.Ct. 2480 (2011).

> nonexclusive license had a legal effect that made it more than a mere covenant by the licens[or] not to sue. Acceptance of the license barred the licensee from challenging the validity of the patent. Some of the early decisions regarding patent-to-patent tying arrangements appear to have been based, at least in part, on that feature of pre-*Lear* patent licenses. *See, e.g., Am. Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769, 777 (3d Cir. 1959); *Int'l Mfg. Co. v. Landon*, 336 F.2d 723, 731 (9th Cir. 1964); *see also Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 699 (D.S.C. 1977), *aff'd in pertinent part*, 594 F.2d 979 (4th Cir. 1979). In the post-*Lear* era, the "acceptance" of a license has no such restrictive effect on the licensee's freedom.

In other words, when this Court abrogated the licensee estoppel doctrine by *Lear*, a legal alternative to the payment of undiminished royalties obviated the need for a rule such as that set forth in *Brulotte*.

That fundamental change in the law of patent licensing undercut the foundation of *Brulotte* – no longer was there a reason for a *per se* presumption of unenforceability, a court could look at the actual facts to determine whether rights were appropriately conveyed without an expiration-based estoppel. As such, *Brulotte* remains an anachronism, based on legal theories that have long since been overruled,

and so to its *per se* bar should be overruled for this additional reason so that the federal courts of appeals may be free to consider package licenses based upon their merits instead of blindly applying a *per se* bar.

CONCLUSION

For the reasons set forth above, *Brulotte* should be overruled.

Respectfully submitted,

ANTHONY LO CICERO,
PRESIDENT
NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION
CHARLES R. MACEDO, *CO-CHAIR OF THE COMMITTEE ON AMICUS BRIEFS*
NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION
C/O AMSTER, ROTHSTEIN, &
EBENSTEIN LLP
90 PARK AVENUE
NEW YORK, NY 10016
(212) 336-8000

JEFFREY I. D. LEWIS,
Counsel of Record
SCOTT B. HOWARD
PATTERSON BELKNAP WEBB &
TYLER LLP
1133 Avenue of the Americas
New York, NY 10036
(212) 336-2000

DAVID. F. RYAN, *CO-CHAIR OF THE COMMITTEE ON AMICUS BRIEFS*
NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION
c/o 1214 Albany Post Road
Croton-on-Hudson, NY
10520
(914) 271-2225

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
MAR 4 - 2015
OFFICE OF THE CLERK

No. 13-720

IN THE

Supreme Court of the United States

STEPHEN KIMBLE, ET AL.,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF OF PUBLIC KNOWLEDGE AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

CHARLES DUAN
Counsel of Record
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
(202) 861-0020
cduan@publicknowledge.org
Counsel for Amicus Curiae

TABLE OF CONTENTS

TABLE OF AUTHORITIES ii
INTEREST OF *AMICUS CURIAE* 1
SUMMARY OF ARGUMENT 2
ARGUMENT 4

I. Applying a Rule of Reason to Contracts for Post-Expiration Royalties Would Exacerbate Abusive Patent Assertion 4

II. Replacing *Brulotte* with a Rule of Reason Would Leave Key Constitutional Patent Policy Goals Unfulfilled 9
A. The Rule of Reason Is Not Designed to Protect the Public Interest in Future Innovation 10
B. The Rule of Reason Is Not Designed to Protect the Public Right to Freely Use Patented Technology After Expiration . 15
C. Many Authorities Agree that Patent Misuse Serves a Different Purpose from Antitrust 19

III. Existing Anticompetitive Patent Practices Demonstrate the Need to Disallow Post-Expiration Royalties 23
A. Holders of Patents on Standardized Technologies Could Effectively Monopolize the Standards Indefinitely . . . 23
B. This Standard-Essential Patent Situation Counters Several of the Procompetitive Arguments Made by Petitioners . . . 27

CONCLUSION 30

TABLE OF AUTHORITIES

CASES

Alice Corp. Pty. Ltd. v. CLS Bank Int'l,
134 S. Ct. 2347 (2014) 1, 10

Allied Tube & Conduit Corp. v. Indian Head, Inc.,
486 U.S. 492 (1988) 25

Arizona v. Maricopa County Med. Soc'y,
457 U.S. 332 (1982) 13

Atl. Works v. Brady,
107 U.S. 192 (1883) 6

Bd. of Trade of Chi. v. United States,
246 U.S. 231 (1918) 13

Bilski v. Kappos,
130 S. Ct. 3218 (2010) 6

Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.,
402 U.S. 313 (1971) 19

Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,
489 U.S. 141 (1989) 10, 16

Broadcom Corp. v. Qualcomm Inc.,
501 F.3d 297 (3d Cir. 2007) 25

Brulotte v. Thys Co.,
379 U.S. 29 (1964) . . . . . *passim*

County Materials Corp. v. Allan Block Corp.,
502 F.3d 730 (7th Cir. 2007) 11

eBay Inc. v. MercExchange, LLC,
547 U.S. 388 (2006) 4, 6

Eon-Net LP v. Flagstar Bancorp,
653 F.3d 1314 (Fed. Cir. 2011) 6

Ericsson, Inc. v. D-Link Sys., Inc.,
773 F.3d 1201 (Fed. Cir. 2014) 26–27

Graham v. John Deere Co.,
383 U.S. 1 (1966) 15

Great Atl. & Pac. Tea Co.
v. Supermarket Equip. Corp.,
340 U.S. 147 (1950) 15

Ill. Tool Works Inc. v. Indep. Ink, Inc.,
547 U.S. 28 (2006) 11, 22

In re Dell Computer Corp.,
121 F.T.C. 616 (1996) . . . 25

Kendall v. Winsor,
62 U.S. (21 How.) 322 (1859) 10

Kewanee Oil Co. v. Bicron Corp.,
416 U.S. 470 (1974) 16

KSR Int'l Co. v. Teleflex Inc.,
550 U.S. 398 (2007) 10, 15

Lab. Corp. of Am. Holdings
v. Metabolite Labs., Inc.,
548 U.S. 124 (2006) 15

Lear, Inc. v. Adkins,
395 U.S. 653 (1969) 17

Leegin Creative Leather Prods., Inc.
v. PSKS, Inc.,
551 U.S. 877 (2007) 11

Mallinckrodt, Inc. v. Medipart, Inc.,
976 F.2d 700 (Fed. Cir. 1992) 19

Medtronic, Inc.
v. Mirowski Family Ventures, LLC,
134 S. Ct. 843 (2014) 22

Microsoft Corp. v. Motorola, Inc.,
696 F.3d 872 (9th Cir. 2012) 25–26

Morton Salt Co. v. G.S. Suppiger Co.,
314 U.S. 488 (1942) 15

Motion Picture Patents Co.
v. Universal Film Mfg. Co.,
243 U.S. 502 (1917) 19

Nautilus, Inc. v. Biosig Instruments, Inc.,
134 S. Ct. 2120 (2014) 1, 22

Octane Fitness, LLC
v. Icon Health & Fitness, Inc.,
134 S. Ct. 1749 (2014) 1

Pennock v. Dialogue,
27 U.S. (2 Pet.) 1 (1829) . . 16

Pfaff v. Wells Elecs., Inc.,
525 U.S. 55 (1998) 10

Scheiber v. Dolby Labs., Inc.,
293 F.3d 1014 (7th Cir. 2002) (Posner, J.) 21

Scott Paper Co. v. Marcalus Mfg. Co.,
326 U.S. 249 (1945) 16, 18

Singer Mfg. Co. v. June Mfg. Co.,
163 U.S. 169 (1896) 16

State Oil Co. v. Khan,
522 U.S. 3 (1997) 12

Ultramercial, Inc. v. Hulu, LLC,
772 F.3d 709 (Fed. Cir. 2014) 6

United States v. Dubilier Condenser Corp.,
289 U.S. 178 (1933) 16

United States v. E.I. du Pont de Nemours & Co.,
351 U.S. 377 (1956) 11

United States v. Grinnell Corp.,
384 U.S. 563 (1966) 11

Windsurfing Int'l, Inc. v. AMF, Inc.,
782 F.2d 995 (Fed. Cir. 1986) 21

CONSTITUTIONAL PROVISIONS

U.S. Const. art. I, § 8, cl. 8 . . . . . 9, 15, 21

STATUTES

35 U.S.C. § 112(b) (2013) 22

——— § 271(a) 12

——— § 271(d) 1

OTHER SOURCES

Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* (3d ed. 2008) 10, 13–14

James Bessen et al., *The Private and Social Costs of Patent Trolls*, Regulation, Winter 2011–2012, at 26, http://object.cato.org/sites/cato.org/files/serials/files/regulation/2012/5/v34n4-1.pdf 5

James Bessen & Michael J. Meurer, Essay, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev. 387 (2014), *available at* http://cornelllawreview.org/files/2014/01/99CLR387.pdf 5

Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed Be the Tie?"*, 4 Harv. J.L. & Tech. 1 (1991), *available at* http://jolt.law.harvard.edu/articles/pdf/v04/04HarvJLTech001.pdf 8

Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461 (2014), *available at* http://stlr.stanford.edu/pdf/startupsandpatenttrolls.pdf . . . 6

Executive Office of the President, *Patent Assertion and U.S. Innovation* (2013), *available at* http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf 7

Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (2011), *available at* http://www.ftc.gov/os/2011/03/110307patentreport.pdf 4, 7

Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399 (2003), *available at* http://repository.uchastings.edu/cgi/viewcontent.cgi?article=1161&context=faculty_scholarship 13, 16, 20–22

H.R. Rep. No. 113-279 (2013) (report on H.R. 3309, the Innovation Act), *available at* https://www.congress.gov/113/crpt/hrpt279/CRPT-113hrpt279.pdf 6

Herbert Hovenkamp et al., *IP and Antitrust* (2d ed. 2014) . . . 7, 17, 20–21, 23

Herbert Hovenkamp, *Restraints on Innovation*, 29 Cardozo L. Rev. 247 (2007), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1438117 13

Int'l Org. for Standardization, *ISO 32000-1:2008: Document Management—Portable Document Format* (2008) 24

Sara Jeruss et al., *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 Duke L. & Tech. L. Rev. 357 (2012), *available at* http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1239&context=dltr 5

Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. High Tech. L. 142 (2010), *available at* http://www.repository.law.indiana.edu/cgi/viewcontent.cgi?article=1833&context=facpub . . . 21

Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599 (1990), *available at* http://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=4161&context=californialawreview 21

Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 Berkeley Tech. L.J. 1135 (2013) 26

Oskar Liivak & Eduardo M. Penalver, *The Right Not to Use in Property and Patent Law*, 98 Cornell L. Rev. 1437 (2013), *available at* http://scholarship.law.cornell.edu/cgi/viewcontent.cgi?article=3284&context=clr 7

Robert Patrick Merges & Glenn Harlan Reynolds, *The Proper Scope of the Copyright and Patent Power*, 37 Harv. J. on Legis. 45 (2000), *available at* http://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=1868&context=facpubs . . 17

Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793 (1988), *available at* http://scholarship.law.berkeley.edu/facpubs/1398/ 20

Joe Mullin, *Angry Entrepreneur Replies to Patent Troll with Racketeering Lawsuit*, Ars Technica (Sept. 16, 2013), http://arstechnica.com/tech-policy/2013/09/angry-entrepreneur-replies-to-patent-troll-with-racketeering-lawsuit/ 6

Nilay Patel, *Lodsys, Patents, and Apple: What's Going On Here?*, The Verge (May 17, 2011), http://www.theverge.com/2011/05/17/lodsys-sends-ios-developers-cease-and-desist-letters-in-app-purchases-on 8

Jonathan B. Postel, *RFC 821, Simple Mail Transfer Protocol* (1982), *available at* http://tools.ietf.org/html/rfc821 24

PricewaterhouseCoopers, *2014 Patent Litigation Study: As Case Volume Leaps, Damages Continue General Decline* (2014), *available at* http://www.pwc.com/en_US/us/forensic-services/publications/assets/2014-patent-litigation-study.pdf 5

Blair Silver, *Controlling Patent Trolling with Civil RICO*, 11 Yale J.L. & Tech. 70 (2009), *available at* http://yjolt.org/sites/default/files/silver-11-YJOLT-70.pdf 6

Spider-Man (Columbia Pictures 2002) . 29

Catherine Tucker, *The Effect of Patent Litigation and Patent Assertion Entities on Entrepreneurial Activity* (MIT Sloan Sch. of Mgmt., Working Paper 5095-14, 2014), http://ssrn.com/abstract=2457611 5

U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007), *available at* http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf 24–26

U.S. Gov't Accountability Office, *GAO-13-465, Intellectual Property: Assessing Factors that Affect Patent Infringement Litigation Could Help Improve Patent Quality* (2013), *available at* http://www.gao.gov/assets/660/657103.pdf 5

U.S. Patent and Trademark Office: The America Invents Act and Beyond, Domestic and International Policy Goals: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary, 113th Cong. (2014), *available at* http://www.gpo.gov/fdsys/pkg/CHRG-113hhrg88922/pdf/CHRG-113hhrg88922.pdf 7

INTEREST OF *AMICUS CURIAE*

Amicus curiae Public Knowledge is a non-profit organization that is dedicated to preserving the openness of the Internet and the public's access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. As part of this mission, Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new and emerging technologies.

Public Knowledge has previously served as *amicus* in key patent cases. *E.g.*, *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014); *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014).[1]

[1] Pursuant to Supreme Court Rule 37.3(a), all parties received appropriate notice of and consented to the filing of this brief. Pursuant to Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amicus*, its members, or its counsel, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

Though *Brulotte v. Thys Co.* long ago established a clear and workable rule that "a royalty agreement that projects beyond the expiration date of the patent is unlawful," Petitioners seek to overrule that holding because, in their view, times and thinking have changed.

But, in relevant aspects, the world is not so different from that of the 1964 decision. The interests of patent holders to contravene the public interest to extract monopolistic rents by asserting their patents continue. And the constitutional and statutory limits that seek to prevent this misuse of the patent right remain in place as well.

Brulotte remains a critical fixture of patent law today for several reasons.

I. Replacing *Brulotte* with an antitrust-based rule of reason analysis on post-expiration royalty agreements would exacerbate existing problems of patent abuse. Finding anticompetitive behavior under the rule of reason requires proof of market power, and the most harmful abusers of the patent system, non-practicing patent assertion entities, often lack market power. Overruling *Brulotte* would give such entities free rein to demand royalties without end.

II. *Brulotte* ensures that patent law maintains its public-oriented focus, namely "to promote the Progress of Science and the useful Arts." As part of that public focus, the Constitution permits patents to be granted only for "limited Times." *Brulotte*'s rule ensures that this limit is maintained, against those who would seek to expand their patent monopolies beyond what is good public policy, that is, those who contrive to contract around the Constitution.

Petitioners rely heavily on principles of antitrust law to justify abrogation of *Brulotte*, but antitrust law does not adequately address the public interest purpose of patents. A properly drawn patent system must not only facilitate inventions but also—more importantly—leave room for future innovators who build upon those patented inventions and guarantee the public with free access to patented inventions once those patent terms expire. These central concerns would not be encompassed by the rule of reason that Petitioners embrace.

III. Current anticompetitive patent practices illustrate the importance of maintaining strong rules against policies contrary to the public interest, such as expanding the patent grant beyond its prescribed term.

In particular, today's connected society is pervaded with standardized technologies, those approved by standards bodies and effectively required to be used by technology product manufacturers. Patents on standardized technologies create troubling opportunities for monopolistic behavior, and overruling *Brulotte* would multiply those opportunities.

To open an avenue for effectively extending patent duration past its statutory expiration date, as Petitioners would have this Court do, would be to open the door to abusive and anticompetitive practices, already existing and problematic as they are. The law should not encourage patent owners to seek expansion of their patent rights beyond those patents' authorized bounds.

Accordingly, the decision in *Brulotte*, that one may not seek post-expiration royalties based on a patent, is soundly reasoned and remains necessary today even after half a century. This Court should maintain the holding of *Brulotte* and affirm the Court of Appeals.

ARGUMENT

In this case, Petitioners seek to replace the straightforward rule set forth in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), with a complex rule of reason test from antitrust law. They support this dramatic change with arguments based on competition and antitrust rationales. *See, e.g.*, Br. Pet'rs 10–11, Jan. 28, 2015.

But the application of antitrust to matters of patent policy misses the mark. The fundamental goals of the patent system are not consonant with the standards of antitrust, and the discrepancy is highlighted nowhere brighter than in the patent misuse doctrine involved in the present case, for the reasons explained below. Petitioners invite this Court to reject decades of patent policy and supplant *Brulotte* with an ill-fitting antitrust doctrine. This Court should decline that invitation.

I. Applying a Rule of Reason to Contracts for Post-Expiration Royalties Would Exacerbate Abusive Patent Assertion

Using an antitrust rule of reason to evaluate a matter of patent policy would exacerbate well-known existing problems of abusive patent assertion. This is because the most abusive patent actors, known as non-practicing entities or patent assertion entities, would be virtually immune to the rule of reason and thus could demand potentially indefinite royalties of their targets.

1. "An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (citing Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and*

Remedies with Competition 38–39 (2011), *available at* URL *supra* p. vii). These so-called "patent assertion entities," whose business model is premised wholly upon exploitation of patents, abuse the patent system and harm the economy to a degree so well documented that the authorities supporting that proposition are too numerous to presentably typeset outside the footnotes of this brief.

Patent litigation has grown dramatically—24% per year since 2009 by one estimate—the bulk of which has been attributable to patent assertion entities.[2] Economists have estimated billions of dollars of lost productivity and economic output due to this explosion in patent assertion.[3] Stories abound of small startups

---

[2]PricewaterhouseCoopers, *2014 Patent Litigation Study: As Case Volume Leaps, Damages Continue General Decline* 5 (2014), *available at* URL *supra* p. ix; Sara Jeruss et al., *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 Duke L. & Tech. L. Rev. 357, 361 (2012), *available at* URL *supra* p. viii ("Specifically, lawsuits filed by monetizers increased . . . to almost 40% of the cases filed in the most recent year."); U.S. Gov't Accountability Office, *GAO-13-465, Intellectual Property: Assessing Factors that Affect Patent Infringement Litigation Could Help Improve Patent Quality* 15 (2013), *available at* URL *supra* p. x ("[D]ata from 2007 through 2011 estimates that the number of overall defendants in patent infringement suits increased by about 129 percent over the 5-year period.").

[3]*See, e.g.*, James Bessen & Michael J. Meurer, Essay, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev. 387, 408 (2014), *available at* URL *supra* p. vi ("Aggregate direct costs of NPE patent assertions grew rapidly from about $7 billion in 2005 to $29 billion in 2011."); James Bessen et al., *The Private and Social Costs of Patent Trolls*, Regulation, Winter 2011–2012, at 26, 30, URL *supra* p. vi ("NPE lawsuits from 1990 through October 2010 are responsible for over half a trillion dollars in lost wealth (in 2010 dollars)."); Catherine Tucker, *The Effect of Patent Litigation and Patent Assertion Entities on Entrepreneurial Activity* 31 (MIT Sloan Sch. of Mgmt., Working Paper 5095-14, 2014), URL *supra* p. x (estimating that venture

and companies laid to waste by "patent trolls" who use patents as tools for "racketeering."[4]

Indeed, members of this Court and other courts have expressed their concerns about patent assertion entities.[5] And they are not without good company: Congress, the White House, the Federal Trade Commission, and the U.S. Patent and Trademark Office have all concurred on the problematic abuse of the patent system.[6]

---

capital investment in technology startups "would have likely been $21.772 billion higher over the course of five years but-for litigation brought by frequent litigators").

[4] *E.g.*, Joe Mullin, *Angry Entrepreneur Replies to Patent Troll with Racketeering Lawsuit*, Ars Technica (Sept. 16, 2013), URL *supra* p. ix; Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461, 472 (2014), *available at* URL *supra* p. vii (PAE demands "can divert scarce money and founder time from the business, incense management, and at times, force significant operational changes"); *see also* Blair Silver, *Controlling Patent Trolling with Civil RICO*, 11 Yale J.L. & Tech. 70 (2009), *available at* URL *supra* p. x (suggesting use of anti-racketeering laws against abusive patent assertion).

[5] *eBay Inc.*, 547 U.S. at 396 (Kennedy, J., concurring); *Bilski v. Kappos*, 130 S. Ct. 3218, 3257 (2010) (Stevens, J., concurring) ("[P]atent holders may be able to use [patents] to threaten litigation and to bully competitors .... That can take a particular toll on small and upstart businesses." (footnote omitted)); *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1326–27 (Fed. Cir. 2011) (criticizing patent owners who display "indicia of extortion" by demanding from over 100 companies "a quick settlement at a price far lower than the cost of litigation"); *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 719 (Fed. Cir. 2014) (Mayer, J., concurring) (explaining how the "scourge of meritless infringement claims has continued unabated for decades"). Indeed, as far back as 1883 this Court decried "speculative schemers who make it their business ... to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the arts." *Atl. Works v. Brady*, 107 U.S. 192, 200 (1883).

[6] *See, e.g.*, H.R. Rep. No. 113-279, at 17 (2013) (report on H.R. 3309, the Innovation Act), *available at* URL *supra* p. vii ("The harm inflicted on American innovation and manufacturing by various abu-

2. Such abusive behavior will only worsen should this Court overrule *Brulotte* and replace it with a rule of reason. The threshold test for proving an anticompetitive restraint under the rule of reason is showing market power. Herbert Hovenkamp et al., *IP and Antitrust* § 3.2e (2d ed. 2014). But patent assertion entities, almost by definition, will rarely have market power, and thus the rule of reason will be powerless to curb their abuses.

Patent assertion entities do not manufacture products, so they are not competitors in the marketplace. Furthermore, they generally lie in wait, not asserting their patents until other companies have successfully manufactured and marketed products independent of those patents. *See, e.g.*, Oskar Liivak & Eduardo M. Penalver, *The Right Not to Use in Property and Patent Law*, 98 Cornell L. Rev. 1437, 1449–50 (2013), *available at* URL *supra* p. viii. Thus, until a patent assertion entity begins asserting its patents, it has no effect on pricing or the market, and accordingly it likely lacks market power. *See* Section

---

sive patent-enforcement practices has been widely known and acknowledged for most of the last decade."); Executive Office of the President, *Patent Assertion and U.S. Innovation* 6 (2013), *available at* URL *supra* p. vii (describing PAEs as "pursuing legal action in a way that does not increase incentives for innovation"); Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 67–68 (2011), *available at* URL *supra* p. vii (suggesting that increased PAE activity "can be detrimental to innovation"); *U.S. Patent and Trademark Office: The America Invents Act and Beyond, Domestic and International Policy Goals: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. 13 (2014), *available at* URL *supra* p. x (statement of Michelle K. Lee, Deputy Under Secretary of Commerce for Intellectual Property) ("[T]he USPTO believes that additional legislative changes to build upon the AIA are needed to further enhance patent quality and to lessen litigation abuses in the system.").

II.A(2)(a) *infra* p. 11. Indeed, even after it asserts its patents, it will probably continue to lack market power until it has licensed its patents to a sufficient fraction of the market.

The effect of a finding that patent assertion entities have no market power is to permit them to demand potentially unlimited royalties. At least one patent assertion entity already demands ongoing royalties on its patents. *See* Nilay Patel, *Lodsys, Patents, and Apple: What's Going On Here?*, The Verge (May 17, 2011), URL *supra* p. ix. Allowing such entities to unilaterally extend their royalties *ad infinitum* would be a pure windfall to the patent asserters and a pure tax upon the targeted innovators.[7]

This unwelcome result of providing a boon to patent abusers is exactly what is to be predicted from adopting a rule of reason framework for a patent policy doctrine. As one practitioner explained, "the determination of economic market power, which presents formidable problems of proof, is further complicated by the legal market power conveyed by a patent . . . Patent market power analysis should avoid consideration of such traditional antitrust factors." Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed Be the Tie?"*, 4 Harv. J.L. & Tech. 1, 3–4 (1991), *available at* URL *supra* p. vi. This Court should not accept Petitioners' invitation to bolt on an ill-fitting doctrine to a carefully balanced system of patent law, lest it open the door to further abuse and misuse of patents.

---

[7]Even the more traditional patent assertion entity who demands a lump sum settlement payment rather than an ongoing royalty would be encouraged to compute that lump sum in view of a possibility of unlimited royalties.

II. REPLACING *BRULOTTE* WITH A RULE OF REASON WOULD LEAVE KEY CONSTITUTIONAL PATENT POLICY GOALS UNFULFILLED

The Constitution grants Congress the power to "promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. *Brulotte* is a simple corollary to the patent policy goals expressed in this clause, and as such can be affirmed by this Court on constitutional grounds alone.

Petitioners primarily argue against *Brulotte* on the basis of antitrust, not patent, doctrines.[8] Their cited authorities rely on "economic theory," two of their three "premises underlying *Brulotte*" are antitrust-based, and their proposed rule of reason analysis is drawn directly from antitrust law. *See* Br. Pet'rs 14–15, 36–37, 41, 45–49.

However, the antitrust and rule of reason paradigms are wrong for this case. First, the competition-based analysis that animates the rule of reason does not with certainty safeguard future innovation, a central requirement of patent policy. Second, the patent scheme promises the public free and unrestricted access to patented inventions after the term expires, and only *Brulotte*'s rule against post-expiration royalties can fulfill that promise; antitrust cannot. Indeed, numerous authorities observe that the patent misuse doctrine, of which *Brulotte* is a part, is broader in purpose and scope than antitrust. Accordingly, Petitioners' antitrust-based arguments cannot justify overruling *Brulotte*.

---

[8]Petitioners' one argument on patent policy, *see* Br. Pet'rs § I.B.1, is disposed in this brief at Section II.A(3) *infra* p. 13.

A. The Rule of Reason Is Not Designed to Protect the Public Interest in Future Innovation

1. Patent policy holds in especially high esteem the object of promoting future innovation, and particularly of ensuring that patents themselves promote future innovation by not impeding the ability of others to improve upon the patented disclosures.

The Constitution demands that patents serve the public interest: "the benefit to the public or community at large" is the "primary object" of patents. *Kendall v. Winsor*, 62 U.S. (21 How.) 322, 327–28 (1859). That public interest includes several aspects. The one Petitioners highlight is "avoiding monopolies that unnecessarily stifle competition." *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998); Br. Pet'rs 36–40. But a more important aspect is facilitating *future innovation* that builds upon existing, possibly patented, inventions.[9]

Patent law is greatly concerned with preserving "the range of ideas available as the building blocks of further innovation." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989); *see also KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007); 2 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 704d, at 233 (3d ed. 2008). Thus, this Court has ensured that patent law is balanced, to protect the ability of follow-on innovators to improve upon existing ideas and thereby augment the storehouse of knowledge. *See, e.g., Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2354 (2014).

---

[9]Petitioners' argument about innovation is directed to "initial creation" of patented inventions, *see* Br. Pet'rs 31, not follow-on innovation based on existing patents as this brief discusses.

2. Given the importance of this constitutional mandate, it is safe to say that any patent doctrine intended to police the use of patents must at a minimum ensure that such use promotes future innovation. However, Petitioners' favored rule of reason test fails this minimum requirement.

The rule of reason analysis includes two steps: first, determining whether the patentee "had market power in the relevant market"; and second, assessing whether the agreement "imposes an unreasonable restraint on competition, taking into account a variety of factors." Br. Pet'rs 47–48 (citing *County Materials Corp. v. Allan Block Corp.*, 502 F.3d 730, 735 (7th Cir. 2007)); *see also Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 885–86 (2007). Neither step properly accounts for follow-on innovation.

a. Market power analysis would fail to fully account for follow-on innovation because it would exclude many patents from the full rule of reason analysis, despite the fact that *every* patent will suppress some future innovation to some degree. Market power is defined as "the power to control prices or exclude competition." *United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966) (quoting *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 391 (1956)). The mere existence of a patent does not confer market power to the patentee. *See Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42 (2006); *see also* 35 U.S.C. § 271(d) (2013). A patentee lacking market power will generally not be held to be engaging in anticompetitive practices under the rule of reason.

But even a patentee without market power always maintains veto power over subsequent innovation that builds upon the invention of the patent. The exclusive

right of the patent prevents others from making or using the patented invention, *see* § 271(a), and thus inhibits the discovery of improvements or modifications that may advance the state of the art.

It may be thought that the risk to future innovation is minimal when it comes to patentees without market power, on the argument that their patents are intrinsically less valuable and thus less amenable to follow-on improvement. This is not the case. Market power based on a patent is not merely a function of the patent's value, but also the patent owner's interest and success in marketing the invention. Even a highly valuable pioneering patent, which might stimulate substantial future developments, will not confer market power if the patentee fails to sell or license the patented technology. Under the rule of reason, then, such a patentee would be unrestricted in ability to engage in patent licensing practices contrary to the goals of the patent system. Such a result should not be permitted.

b. Nor does the "unreasonable restraint" analysis following a finding of market power properly account for follow-on innovation. Such analysis considers multiple factors including "specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect." *E.g.*, *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997).

However detailed this inquiry may be, however, its focus and end goal are competition over existing products in the marketplace. In what has been called the classic statement of the rule of reason, Justice Brandeis explained that the test is "whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even de-

stroy competition." *Bd. of Trade of Chi. v. United States*, 246 U.S. 231, 238 (1918); *see Arizona v. Maricopa County Med. Soc'y*, 457 U.S. 332, 343 n.13 (1982). Thus, "the antitrust rule of reason focuses on one particular issue: the impact on competition, rather than all possible equitable considerations" relevant to patent policy. Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 422 (2003), *available at* URL *supra* p. vii.

Consequently, the "unreasonable restraint" test does not ordinarily contemplate future products that do not yet exist. A leading treatise notes that "innovation itself is rarely of antitrust concern." 3 *Antitrust Law*, *supra*, ¶ 704d, at 226. And, indeed, scholars have criticized the rule of reason because "in innovation intensive markets antitrust has been overly concerned with the impact of practices on price, and insufficiently concerned with longer run effects on technological progress." Herbert Hovenkamp, *Restraints on Innovation*, 29 Cardozo L. Rev. 247, 255 (2007), *available at* URL *supra* p. vii. Thus, the rule of reason is insufficient to "enhance the overall progress of science by ensuring that those who create initial steps do not discourage those who would take the next steps." Feldman, *supra*, at 445. It is an inappropriate test for preventing misuse of patents.

3. The importance of follow-on innovation explains the error in Petitioners' argument that *Brulotte* "impairs the ability of contracting parties to balance and allocate the risks of developing and commericalizing new patentable technologies." Br. Pet'rs 31. Respondent has already minimized the effect of this argument by pointing out alternate financial arrangements that would achieve the same balance and allocation of risks. *See* Br. Resp't

47–48, Feb. 27, 2015. But neither party weighs the cost of overruling *Brulotte* to *future* developments. Regardless of how competitive the contracting parties remain after instituting a post-expiration royalty contract, the licensee will have less incentive to build improved products based on the licensed patent, knowing that such improved products will only trigger more royalty payments down the road. Such a disincentive to improvement is anathema to patent policy.

"[I]f innovation contributes so much more than competition to economic growth, then *restraints* on innovation very likely produce a far greater amount of economic harm than traditional restraints on output or price. As a result, antitrust, with its heavy concern that prices be kept as close as possible to cost, is often shooting at the wrong target." 3 *Antitrust Law*, *supra*, ¶ 704d, at 227. Where the risk to future innovation is great, the constitutional requirement that patents promote progress must override patentees' wishes for further commercialization options. Accordingly, Petitioners' argument cannot carry the day.

* * *

Certainly it is difficult to quantify the value of the public's ability to build upon existing knowledge from any given patent; one cannot easily put a price tag on future innovation. But any rule intended to prevent misuse of patents must at least recognize the importance of that value. The traditional antitrust-based rule of reason, by lacking a doctrinal structure for evaluating future innovation, effectively sets that value at a default of $0. The constitutional requirement that patents promote progress cannot tolerate such a debasement of future innovation, and this Court should not tolerate it either.

B. The Rule of Reason Is Not Designed to Protect the Public Right to Freely Use Patented Technology After Expiration

Another key aspect of patent policy, also expressed in the Constitution, is that the public must be guaranteed free and unrestricted access to inventions covered by patents, once the terms of those patents have expired. This imposes a strong requirement that the right to exploit a patent by demanding royalties be confined to "limited Times." Only *Brulotte*'s *per se* rule, and not an uncertain rule of reason, can make that guarantee.

1. "The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and laws of the United States, to promote the Progress of Science and the useful Arts." *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942) (quoting U.S. Const. art. I, § 8, cl. 8) (internal quotations omitted). Time and again this Court has recognized that this clause limits the scope of the patent right, for "the patent power may not overreach the restraints imposed by the stated constitutional purpose." *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966).[10]

Promoting progress requires that the benefit of the disclosed and patented invention ultimately inure to the

---

[10] *See also KSR*, 550 U.S. at 427 (explaining that excessively strong patents "might stifle, rather than promote, the progress of useful arts"); *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 126–27 (2006) (Breyer, J., dissenting from dismissal of certiorari) ("[S]ometimes *too much* patent protection can impede rather than 'promote the Progress of Science and the useful Arts' . . . "); *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 154 (1950) (Douglas, J., concurring) ("The Congress acts under the restraint imposed by the statement of purpose in Art. I, § 8.").

public, in the form of unbridled access to that invention. Justice Story explained that the "main object" of the constitutional purpose "could be done best, by giving the public at large a right to make, construct, use, and vend the thing invented, at as early a period as possible; having a due regard to the rights of the inventor." *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 19 (1829). Thus, "[i]t is self evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property." *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896); *see also Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974) (after patent expires, "the knowledge of the invention enures to the people" (quoting *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933))).

The terms of patents are consequently limited, so as to "bring new designs and technologies into the public domain through disclosure." *Bonito Boats*, 489 U.S. at 151; *see also Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945) (aim of patent system is "unrestricted exploitation" after expiration). "[T]he patent system has strong policy reasons for limiting the time of a patent grant. These include not only concerns related to anticompetitive effects but also concerns related to limiting wasteful and duplicative activities and creating disincentives to future inventors." Feldman, *supra*, at 445.

Accordingly, the requirement that patent rights be only for "limited Times" is a critical component of the patent system. That requirement is mandated by the Constitution and essential to promoting innovation and protecting the public's right to access technologies after patent expiration.

2. This policy behind limited patent terms necessitates doctrines that strongly disfavor any encroachment upon the public's right to free access to post-expiration patented inventions. "[C]ourts have treated extension of a patent grant . . . as an evil to be avoided regardless of a demonstrable effect on competition." *IP and Antitrust*, *supra*, § 3.2d. Such protective doctrines thus ensure that the patent law is "forward-looking, growth-oriented, [and] entrepreneurial" rather than a "backward-looking" "attempt to preserve old markets." Robert Patrick Merges & Glenn Harlan Reynolds, *The Proper Scope of the Copyright and Patent Power*, 37 Harv. J. on Legis. 45, 56 (2000), *available at* URL *supra* p. ix.

Brulotte's *per se* rule against post-expiration royalty contracts is such a protective doctrine, as it ensures that no patentee maintains the ability to exploit the post-expiration term when the invention has been dedicated to the public. By contrast, the rule of reason fails to provide that protection, by permitting patentees in some situations to extract royalties based on property dedicated to the public. Patent policy rejects the latter and favors the former; this Court should do so as well.

3. It is no justification for the rule of reason that only licensees are encumbered by patent royalties after the expiration of the term, as Petitioners suggest. *See* Br. Pet'rs 20. The patent policy objective of post-expiration freedom goes unsatisfied even when only licensees are required to pay royalties after the patent expires.

The public interest expressed in patent policy is offended by private agreements that purport to only restrain single parties. *See Brulotte*, 379 U.S. at 32 (post-expiration royalty contracts undercut "the free market visualized for the post-expiration period"); *Lear, Inc. v.*

Adkins, 395 U.S. 653, 670 (1969) ("[T]he technical requirements of contract doctrine must give way before the demands of the public interest . . . ."). This is in part because licensees often sell products to the public, and so by paying post-expiration royalties, the licensee "would deprive himself *and the consuming public* of the advantage to be derived from his free use of the disclosures." *Scott Paper Co.*, 326 U.S. at 255–56 (emphasis added). When it comes to the public purpose of patent policy, one cannot simply contract around the Constitution.

Indeed, to withhold prior licensees from the general post-expiration freedom requirement would be to withhold the most valuable fraction of the public, in relation to the invention, from making beneficial use of that post-expiration freedom period. Existing licensees are the parties most interested in the invention, since they are willing to pay the license fee to obtain access. They have spent time and effort learning about the patented invention, and thus are the most likely to exploit, improve, and innovate upon the invention. *See* Br. Resp't 35 ("A licensee may be the best party, and perhaps the only party, suited to make use of the invention or to build upon it with additional innovation."). Such parties' activities are essential to turning inventions into consumer products that promote the progress of science and the useful arts.

The constitutional benefit of the patent bargain is thus in large part brokered by these interested parties who likely are licensees. It would deteriorate that patent bargain to deny the unrestricted access to expired patents to those licensees, who are the most likely parties to benefit society with that unrestricted access. This Court should not allow such a result, it should not sanction such restrictive contracts, and it should not overrule *Brulotte*.

C. Many Authorities Agree that Patent Misuse Serves a Different Purpose from Antitrust

That antitrust doctrine does not serve the policy goals underlying *Brulotte* should be unsurprising, because it is well recognized that the doctrine of patent misuse, of which *Brulotte* is a part, works to a different end than antitrust. Patent misuse protects the constitutionally mandated balance of the patent system from undue expansions of patent rights, while antitrust protects consumers from anticompetitive practices. These fields are non-overlapping.

1. Patent misuse occurs when a patentee has engaged in conduct that "attempts to broaden the physical or temporal scope of the patent monopoly." *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971). In a case described as the origin of the patent misuse doctrine, this Court cited specifically to the Constitution in order to reject a tying arrangement between patented and unpatented goods. *See Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917). Similarly, the Court of Appeals for the Federal Circuit has explained that patent misuse is directed to practices "contrary to public policy," that policy being "to prevent a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right." *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992).

Commentators recognize that the misuse doctrine maintains patent law's constitutional balance. "Patent policy permits the grant of exclusive rights only under certain conditions and only within a limited scope, and the expansion of that scope through coercive use of a

government-granted legal right has been thought to undermine the limitations built into patent law." *IP and Antitrust*, *supra*, § 3.2d. "Patent misuse thus helps maintain patent law's equitable symmetry" between favoring patentees and protecting public policy, another scholar writes. Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793, 797 (1988), *available at* URL *supra* p. ix.

Accordingly, the patent misuse doctrine is driven by policies of the patent system, derived from the Constitution and, as explained above, ensuring the public interest in promotion of progress and unfettered post-expiration access.[11]

2. These constitutional and policy concerns behind patent misuse are significantly different from antitrust doctrines, which primarily focus on market competition issues. Patent misuse generally prohibits a wider swath of activities than antitrust, at least with respect to patent-related conduct.

One scholar notes that "patent misuse is tested under patent policy, not antitrust policy. Thus, while the behavior may be insufficient for a Sherman Act or Clayton Act violation, it may still constitute misuse." Feldman, *supra*, at 413; *accord IP and Antitrust*, *supra*, § 3.2d (courts "apply misuse doctrine to at least some sorts of conduct antitrust law would not reach"). "A behavior that retards the progress of science would be of concern

[11]Certainly at times *Brulotte* makes reference to monopoly and competition concerns to justify its result. *See* 379 U.S. at 32–33. But while Petitioners would suggest that the concern for monopoly "undergirds the entire opinion in *Brulotte*," Pet. Writ Cert. 21, Dec. 13, 2013, antitrust is not the whole basis for the ruling. Patent policy, which incorporates antitrust policy but also reaches further, is the basis of *Brulotte*.

to patent policy," for example, but "antitrust tests are not attuned to this type of problem." Feldman, *supra*, at 448. Thus, "patent misuse should transcend the contours of traditional antitrust law and should concern itself with policy of patent law and the effect on innovation." Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. High Tech. L. 142, 148 (2010), *available at* URL *supra* p. viii. Even critics of the patent misuse doctrine still concede that "there may well be areas where the antitrust laws do not deter anticompetitive conduct sufficiently." Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1631 (1990), *available at* URL *supra* p. viii.

Specifically, the *per se* prohibition of attempted patent term extensions in *Brulotte* "seems to be driven by noneconomic concerns about the use of patent law to gain some perceived economic advantages." *IP and Antitrust*, *supra*, § 3.3c. Petitioners make much of *Scheiber v. Dolby Laboratories, Inc.*, 293 F.3d 1014 (7th Cir. 2002) (Posner, J.), which argues that *Brulotte*'s rule is incorrect from a competition and antitrust perspective. *See* Br. Pet'rs 15, 21–22. But even *Scheiber* concedes that its antitrust-based criticisms of *Brulotte* would be "wide of the mark if *Brulotte* had been based on interpretation of the patent clause of the Constitution." *Cf. Scheiber*, 293 F.3d at 1018. But *Brulotte* is based on that clause of the Constitution, *see* 379 U.S. at 30 (quoting U.S. Const. art. I, § 8, cl. 8), so *Scheiber* effectively concedes that its antitrust-focused criticism of *Brulotte* is misplaced.[12]

---

[12]Certain decisions of the Federal Circuit appear to equate patent misuse and antitrust violations. *See, e.g., Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986) ("The doctrine of patent misuse . . requires that the alleged infringer show . . . anticompetitive effect."). However, these should be viewed not as ac-

Illinois Tool Works does not suggest otherwise. There, the Court determined that, because patent misuse could not extend to a tying arrangement, antitrust could not reach that arrangement either. *See* 547 U.S. at 42. But Petitioners argue the reverse: if antitrust law does not justify *Brulotte*, then patent misuse should not justify it either. *See* Br. Pet'rs 43–45. Petitioners err because they fail to recognize that patent misuse disallows a wider range of activities than antitrust, and accordingly *Illinois Tool Works* is not in conflict with *Brulotte*.

* * *

In sum, antitrust doctrine and the rule of reason are not a right fit for handling the patent policy concerns that motivate *Brulotte* and patent misuse. In view of the language of the Constitution, patent doctrine is strongly concerned with promoting future innovation and ensuring a free post-expiration period of public access; misuse doctrine has evolved to account for these concerns, but general antitrust law has not. The discrepancy in legal basis has resulted in discrepancy between the respective doctrines' prohibitions. But such discrepancies should not indicate a need for reconciliation; they should rather indicate that different doctrines are needed for different systems. Accordingly, this Court should reject the suggestion to apply rule of reason to patent misuse situations, and uphold *Brulotte*.

---

curate statements of the law but rather as examples of the Court of Appeals "defying Supreme Court doctrine" by inventing its own law. *See, e.g.*, Feldman, *supra*, at 419; *cf. Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2130 (2014) (rejecting Federal Circuit's "insolubly ambiguous" test for § 112(b) as contrary to this Court's precedents); *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 849–50 (2014) (reversing a declaratory judgment burden shifting rule devised by the Federal Circuit).

III. Existing Anticompetitive Patent Practices Demonstrate the Need to Disallow Post-Expiration Royalties

That patent misuse and *Brulotte* serve constitutional purposes beyond what standard antitrust doctrine contemplates is sufficient to maintain *stare decisis* and affirm the Court of Appeals. But even from just an antitrust standpoint, the *Brulotte* rule against post-expiration royalty contracts prevents serious and troubling anticompetitive practices from obtaining. In particular, where "substantial entry barriers or scale economies" keep new entrants out of the market, and where the licensees bound to post-expiration royalties "make up most of the market," then "it may be possible for the patentee to maintain a hold on the market even after the patent expires," which would effectively grant the patentee an extension of patent term. *IP and Antitrust*, *supra*, § 3.3c.

One such particular area is described in detail below.

A. Holders of Patents on Standardized Technologies Could Effectively Monopolize the Standards Indefinitely

The anticompetitive effects of overruling *Brulotte* are most clearly demonstrated in the area of "standard-essential patents." As explained below, permitting post-expiration royalty agreements would enable the holders of these kinds of patents to potentially monopolize certain fields indefinitely, in full contradiction to the limited term of those patents. Furthermore, this fear is likely far from hypothetical, given numerous present examples of standard-essential patent holders attempting to abuse their patents already.

1. A standard-essential patent is one that, by design, is prone to anticompetitive abuse. Such patents arise out of the technology standard-setting process, by which an organization selects among various competing technologies, deeming one of them a "standard." *See* U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 34 (2007) [hereinafter FTC-DOJ Report], *available at* URL *supra* p. x.

Technology standards "one of the engines driving the modern economy," central to the rapid development of Internet, mobile communications, and computer technologies today. *Id.* at 33. These technologies require multiple, diverse manufacturers to coordinate their development to ensure that their products can communicate with each other in the same language—a concern known as "interoperability"—and standards serve as an anchor point for such coordination. *Id.* Technologies ranging from the commands for transmitting an email message to the structure of a PDF document (both technologies that this Court requires) are specified by standards. *See* Jonathan B. Postel, *RFC 821, Simple Mail Transfer Protocol* (1982), *available at* URL *supra* p. ix (email protocol); Int'l Org. for Standardization, *ISO 32000-1:2008: Document Management—Portable Document Format* (2008).

This standards process means that the holder of a patent covering that standardized technology has unusual market power and accordingly unusual opportunity to overreach with that patent. Manufacturers are effectively locked into using the standard, because to deviate from it would prevent their devices from interoperating with devices compliant with the standard. *See* FTC-DOJ

Report, *supra*, at 36. Thus, every device manufacturer operating within the standard is obliged to take a license for such a "standard-essential patent" or risk an infringement lawsuit. *See id.*

While, for non-standards technologies, a manufacturer can negotiate a patent license with the option of working around the patent should negotiations fail, a manufacturer negotiating with a standard-essential patent owner has no such option. This gives the patent owner market power to raise licensing fees or engage in other monopolistic behavior, creating a substantial competition problem. *See id.*; *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310 (3d Cir. 2007) (holder of a patent on standardized technology is in a "unique position of bargaining power"); *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012) ("[S]tandards threaten to endow holders of standard-essential patents with disproportionate market power."); *In re Dell Computer Corp.*, 121 F.T.C. 616, 624 n.2 (1996) ("[T]he standard effectively conferred market power upon Dell as the patent holder.").

2. Overruling *Brulotte* would create a worrying new opportunity for anticompetitive behavior using standard-essential patents. Since every relevant manufacturer would be required to take a license from the holder of a standard-essential patent, the patent holder effectively could be guaranteed full ongoing royalties for whatever duration the patent owner specifies, regardless of the patent term.

A rule of reason analysis would not certainly overcome this possibility of abuse. There is already a general belief that "private standards can have significant procompetitive advantages." *E.g.*, *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 501 (1988).

Evidence demonstrating anticompetitive use of standard-essential patents is difficult to come by, in large part perhaps because of lack of transparency in the licensing process and the newness of the monopolistic practices involved. *See, e.g., Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1234 (Fed. Cir. 2014) (finding that defendant "failed to provide evidence" of certain anticompetitive theories "sufficient to warrant a jury instruction"). And given the overall difficulties of proving anticompetitive behavior under a pure rule of reason analysis, *see* Br. Resp't 52–53, it is likely that many post-expiration royalty agreements on standard-essential patents would survive scrutiny even though such a practice is almost certainly always anticompetitive.

Furthermore, this abusive practice would likely be quickly adopted by standard-essential patent holders, in view of their already-known disposition for overreaching with their patent rights. Most standard-setting bodies, attempting to limit anticompetitive behavior through private ordering, require patent holders who participate in the standard-setting process to agree to license their patents under "Reasonable And Non-Discriminatory" (RAND) terms. *See* FTC-DOJ Report, *supra*, at 36. But despite these efforts, owners of standard-essential patents have attempted numerous tactics to evade these RAND obligations, such as demanding unreasonably high royalties despite the obligations, seeking injunctions as leverage for demanding higher royalties, and selling the patents to third parties to circumvent the RAND agreement. *See, e.g., Microsoft*, 696 F.3d at 879; Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 Berkeley Tech. L.J. 1135, 1158–60 (2013).

Should this Court sanction post-expiration royalty contracts, it is practically certain that standard-essential patent holders will add this option to their toolbox of methods for expanding their patent royalties, to the detriment of technology standards, technology development, and the public interest. Such a course would be unwise as a matter of public policy and the consumer interest, and this Court should avoid it.

B. This Standard-Essential Patent Situation Counters Several of the Procompetitive Arguments Made by Petitioners

Besides being an example of a serious antitrust concern that would arise in the absence of *Brulotte*, the standard-essential patent issue rebuts several of Petitioners' arguments for overruling *Brulotte*.

1. Petitioners' primary contention is that a contract for pre- and post-expiration royalties can always be equated with solely pre-expiration royalties at a higher rate. *See* Br. Pet'rs 20–21. But this assumes that the patentee has the option of selecting the higher or lower pre-expiration rate.

For a patent subject to a RAND agreement, the patentee does not have such an option. The "reasonable" component of "RAND" sets a ceiling on the royalty that may be charged to a licensee; to demand more would constitute a breach of contract. *See, e.g.*, *Ericsson*, 773 F.3d at 1231 ("A RAND commitment limits the market value to what the patent owner can reasonably charge for use of the patented technology." (parentheses omitted)).

Thus, permitting post-expiration royalties would give standard-essential patentees a windfall to which they were never entitled. Under *Brulotte* the patentees would

receive the RAND royalty pre-expiration and nothing post-expiration; absent *Brulotte* the patentees would be free to charge the RAND royalty post-expiration as well. Thus, Petitioners' claim that post-expiration royalties "represent an amortization of the predicted value of the pre-expiration authorization," Br. Pet'rs 20, fails to hold for a commercially significant slice of patents.

2. Petitioners also argue that post-expiration royalty agreements allow parties "to balance and allocate the risks of developing and commercializing new patentable technologies," thereby promoting innovation. *Id.* at 37. That may be true in some situations, but Petitioners seem to indicate that *Brulotte always* impedes innovation in this way. *See* Br. Pet'rs 31 (asserting that "*Brulotte* harms innovation"). Standard-essential patents prove this unqualified statement to be untrue.

As explained above, overruling *Brulotte* would potentially have the effect of transferring additional royalties from manufacturers to standard-essential patent holders, without necessarily a corresponding benefit to manufacturers. This would discourage those manufacturers from developing products under the relevant standard. Besides simply cutting consumers off from products never developed, the decrease in product development would undercut adoption of the standard itself, thereby making the technology—and the standard-essential patents, for that matter—less valuable.

Thus, standard-essential patents demonstrate several of Petitioners' positive predictions of overruling *Brulotte* to be flawed. In view of *Brulotte*'s long history, the certain protections it brings to patent policy, and the uncertain arguments against it, this Court should uphold its precedent and affirm the Court of Appeals.

* * *

"With great power comes great responsibility." *Spider-Man* (Columbia Pictures 2002) (perhaps referencing *Luke* 12:48). The exclusive rights granted by a United States patent are a great power, and attendant to that power is a great responsibility of the patentee not to misuse the patent right in ways that inhibit future innovation or discourage free use of ideas in the public domain.

The task of ensuring that patentees live up to that responsibility falls to the doctrine of patent misuse, and in this case particularly to the doctrine of *Brulotte v. Thys Co.* For half a century those doctrines have protected the public and defended constitutional patent policy.

Yet now Petitioners ask this Court to replace those strong protections with the rule of reason, a doctrine fit for its antitrust context but ill-suited to the patent policies that misuse serves. They hypothesize possible benefits to competition, but the effect on the patent system is certain: powerful patent actors—patent assertion entities, standard-essential patent holders—will gain new abilities to wield their patents against the public and against the public interest. Those actors will be free to shirk their great responsibility while retaining their great power. This Court should not allow for such a result to come to pass.

Petitioners patented a Spider-Man style device for shooting foam string spiderwebs, that patent being the origin of this case. Petitioners now seek permission to construct never-ending webs of patent royalties, by having this Court overrule *Brulotte*. Lest the entire public be ensnared in the ensuing tangle of patent rights. this Court should refuse to take such a step.

CONCLUSION

For the foregoing reasons, this Court should affirm the Court of Appeals.

Respectfully submitted,

CHARLES DUAN
Counsel of Record
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
(202) 861-0020
cduan@publicknowledge.org

Counsel for Amicus Curiae

March 4, 2015

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
FEB - 4 2015
OFFICE OF THE CLERK

No. 13-720

IN THE
Supreme Court of the United States

STEPHEN KIMBLE, ET AL.,
Petitioners,
v.
MARVEL ENTERPRISES, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF THE UNIVERSITY OF MASSACHUSETTS BIOLOGIC LABORATORIES AS AMICUS CURIAE IN SUPPORT OF PETITIONERS

DONALD R. WARE
Counsel of Record
JEREMY A. YOUNKIN
MARCO J. QUINA
Special Assistant Attorneys General for the Commonwealth of Massachusetts
FOLEY HOAG LLP
155 Seaport Boulevard
Boston, MA 02210
(617) 832-1000
dware@foleyhoag.com

February 4, 2015

TABLE OF CONTENTS

TABLE OF AUTHORITIES iii

STATEMENT OF INTEREST 1

SUMMARY OF ARGUMENT 2

ARGUMENT 4

I. MassBiologics' Experience Exemplifies the Harm Caused by the Circuit Courts of Appeals' Treatment of Post-Expiration Royalties as Unlawful Per Se under *Brulotte* 4

A. The RSV Consortium 5

B. MassBiologics' Licensee Brings a *Brulotte* Challenge Seeking to Avoid Its Promise to Share in the RSV Consortium's Success 10

C. The State Trial Court Rejects a Rigid Interpretation of *Brulotte* and Determines that It Does Not Apply to the Facts and Circumstances of the RSV Agreement 12

D. MassBiologics' Licensee Presses *Brulotte* on Appeal 13

II. *Brulotte*, and This Court's Subsequent Decisions, Do Not Support an Inflexible Per Se Test.....15

III. The Court Should Reject Any Per Se Rule and Adopt a Flexible, Rule of Reason Analysis.....22

A. A Per Se Application of *Brulotte* Is Economically Irrational and Inconsistent with This Court's More Recent Jurisprudence.....22

B. Patent Policy Does Not Justify a Per Se Rule.....27

C. A Per Se Application of *Brulotte* Creates a Dangerous and Unjust Trap for the Unwary.....33

CONCLUSION.....36

TABLE OF AUTHORITIES

Cases

Aronson v. Quick Point Pencil Co.,
440 U.S. 257 (1979) 8, 18, 19, 20, 29, 30

Automatic Radio Mfg. Co.v. Hazeltine Research, Inc.,
339 U.S. 827 (1950) 31, 32

BPR Grp. Ltd. P'ship v. Bendetson,
906 N.E.2d 956 (Mass. 2009) 8

Brulotte v. Thys Co.,
379 U.S. 29 (1964) .....*passim*

California Dental Ass'n v. FTC,
526 U.S. 756 (1999) 22

Cordance Corp. v. Amazon.com Inc.,
727 F. Supp. 2d 310 (D. Del. 2010)..... 18

Edmund D. Hewins, Inc., v. Marlboro Cotton Mills,
136 N.E. 159 (Mass. 1922) 8

FTC v. Actavis, Inc.,
133 S. Ct. 2223 (2013) 22, 28, 29

G.M. Abodeely Ins. Agency, Inc. v. Commerce Ins. Co.,
669 N.E.2d 787 (Mass. App. Ct. 1996)..... 8

Ill. Tool Works Inc. v. Indep. Ink, Inc.,
547 U.S. 28 (2006) 28, 32

Lear, Inc. v. Adkins,
395 U.S. 653 (1969) 31

MedImmune, Inc. v. Genentech, Inc.,
549 U.S. 118 (2007) 10

Scheiber v. Dolby Labs., Inc.,
293 F.3d 1014 (7th Cir. 2002) 23, 34

Zenith Radio Corp. v. Hazeltine Research, Inc.,
395 U.S. 100 (1969) 20, 21, 32

Zila, Inc. v. Tinnell,
502 F.3d 1014 (9th Cir. 2007) 17

Statutes

Mass. Gen. Laws. ch. 75, § 43 1

35 U.S.C. § 271 28

Other Authorities

1 Herbert Hovenkamp, et al., *IP and Antitrust* § 23.2a (Supp. 2009) 28

Harold See & Frank M. Caprio, *The Trouble with Brulotte: the Patent Royalty Term and Patent Monopoly Extension*,
1990 Utah L. Rev. 813 (1990) 23, 26, 27

Louis Altman, *Is There an Afterlife? The Effect of Patent or Copyright Expiration on License Agreements*, 64 J. Pat. & Trademark Off. Soc'y 297 (1982) 26

Note, *An Economic Analysis of Royalty Terms in Patent Licenses*, 67 Minn. L. Rev. 1198 (1983) 27

STATEMENT OF INTEREST

The University of Massachusetts Biologic Laboratories ("MassBiologics") is a public research laboratory established by the Massachusetts Legislature to carry out a public health mission.[1] As set forth in its enabling act, "the purpose of [MassBiologics] shall be the research, development and production of childhood vaccines and biologic products designed to reduce or prevent morbidity and mortality in the commonwealth, including but not limited to those products which may be of little or no interest to commercial manufacturers and are therefore otherwise substantially unavailable to the citizens of the commonwealth." Mass. Gen. Laws ch. 75, § 43.

Over the past several years, MassBiologics has been forced to litigate, at great expense, a licensee's challenge, under *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), to the mutually-agreed royalty terms in a technology license agreement. The agreement was entered into as part of a research collaboration to develop therapeutic products for the prevention or treatment of respiratory syncytial virus ("RSV"), a cause of devastating illness in premature infants. Years after one of these products became a billion dollar drug, the licensee's business was sold to a

---

[1] In accordance with Supreme Court Rule 37.6, MassBiologics states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than MassBiologics or its counsel.

global pharmaceutical company. Thereafter, the licensee attempted to cut off all further royalty payments to MassBiologics. In the course of the litigation that ensued, the licensee pressed the argument that the agreement's royalty terms, *drafted by the licensee's own experienced patent attorney*, were unlawful per se under *Brulotte*. The licensee's attempt to renege on its financial commitments was rejected by a Maryland trial court, but not without considerable cost exacerbated by the continued vitality of *Brulotte* and the circuit courts of appeals' treatment of it as creating a rule of per se illegality.[2]

SUMMARY OF ARGUMENT

MassBiologics' experience belies Respondent's suggestion that the *Brulotte* rule "causes little (if any) interference with desirable licensing practices." Respondent's Cert. Br. at 24. MassBiologics has been forced, at considerable expense, to defend its rights under a procompetitive research collaboration agreement when its licensee, with the goal of maximizing profits by reducing or eliminating third party royalties, seized upon *Brulotte* as an excuse to undo promises made years ago. The licensee's *Brulotte* challenge has been pressed zealously even though the evidence established that no patent applications had been filed at the time of the

---

[2] MassBiologics sought consent to file this brief from the counsel of record for all parties, pursuant to Supreme Court Rule 37.3(a). Counsel for all parties consented and copies of the letters of consent have been submitted with this brief.

agreement, the licensee's royalty bearing therapeutic product makes no use of the licensor's patents, and the licensor had no market power and exerted no patent leverage at the time the license was negotiated. MassBiologics' experience powerfully illustrates the harm that is caused by the continued vitality of *Brulotte*, exacerbated by lower federal courts' mistaken interpretation of that decision.

Contrary to what those lower courts have held, *Brulotte* does not impose an unyielding per se rule that is blind to the absence of patent leverage, the convenience of the parties, or other factors making the arrangement procompetitive. The *Brulotte* Court's analysis and the facts of that case do not support the rigid test that has been ascribed to it, nor do this Court's subsequent precedents.

If *Brulotte* does impose a categorical per se rule of illegality, it should be overruled and replaced with a flexible, rule of reason analysis. Legal and economic scholars agree that a per se rule invalidating post-expiration royalties is economically unsupportable and unwise. Nor can *Brulotte* be justified as an articulation of patent policy. *Brulotte* has become an outlier in this Court's jurisprudence, lacking any doctrinal foundation. Today, it serves only as an obstacle to technology transfer and a dangerous trap for the unwary. It is time for this Court to bring this area of law in line with the Court's modern jurisprudence and articulate a principle that is economically sound, flexible, and fair to both licensors and licensees.

ARGUMENT

I. MassBiologics' Experience Exemplifies the Harm Caused by the Circuit Courts of Appeals' Treatment of Post-Expiration Royalties as Unlawful Per Se under *Brulotte*

The *Brulotte* Court's reference, in dicta, to per se illegality, and the rigid application of *Brulotte* by the circuit courts of appeals, have inspired licensees to challenge reasonable patent license arrangements that fall well outside the type of agreement seen as problematic by this Court in *Brulotte*. Mr. Kimble's case provides an opportunity for this Court to ensure that procompetitive agreements, entered into between willing parties and containing royalty terms designed for the convenience of the parties, cannot be attacked after the fact, when a profit-driven licensee decides it no longer wants to keep its promises.

For the past several years, MassBiologics has been forced to defend against a licensee's *Brulotte* challenge to the enforceability of a royalty provision agreed upon as part of a joint development collaboration. The licensee has mounted this challenge even though the evidence established that (1) at the time of the agreement, no patents or patent applications existed; (2) there was no patent leverage, as a trial court expressly found; and (3) the licensee's continuing obligation to pay royalties on its billion dollar drug is not based upon any continuing use of the licensor's expired patents. The licensee, now a business unit of a multibillion-dollar global pharmaceutical company, is seeking to exploit

Brulotte as a way to escape its contractual obligations and enhance its profits at the expense of a small, budget-constrained state agency. MassBiologics' experience provides a real world illustration of the risks, costs, and uncertainties engendered by the continued vitality of *Brulotte* and the intermediate federal appellate courts' inflexible and incorrect interpretation of that decision.

A. The RSV Consortium

In 1989, the licensee, MedImmune LLC – then a small, fledgling startup – and two non-profit entities came together to form the "RSV Consortium." Their goal was to develop and commercialize antibody technology for the prevention and treatment of RSV. The parties recognized a significant unmet public health need in RSV as well as a commercial opportunity, and they formed their consortium to solve it, hopefully for the benefit of them all and for countless premature infants and other vulnerable patients who might otherwise suffer from RSV infections. The three parties decided that each of them would take the lead on a separate antibody project in the hopes that at least one would yield a product that MedImmune could commercialize and sell.

In addition to MedImmune, the other two members of the RSV Consortium were the Massachusetts Health Research Institute ("MHRI"), whose scientists pioneered the early development of antibody-based treatments for RSV, and the Henry M. Jackson Foundation for the Advancement of Military Medicine ("HJF"), a Bethesda-based

research institution whose scientists likewise were working on treatments for RSV. As part of the formation of the consortium, MHRI and HJF entered into license agreements with MedImmune that gave MedImmune access to their RSV research. Most of MHRI's rights under its contract (the "RSV Agreement") were later assigned to MassBiologics.[3]

The agreements were drafted by an experienced outside patent attorney for MedImmune.[4] Although MHRI did not have any patents or even patent applications at the time the agreement was negotiated, MedImmune's proposal included a license grant covering any future MHRI patents within the RSV antibody field. The agreement also granted MedImmune a license to MHRI's trade secrets and manufacturing know-how in the RSV field. MHRI agreed to share with MedImmune MHRI's existing and future technology in the RSV

---

[3] In 2002, MHRI, MedImmune, and MassBiologics entered into an Assignment Agreement by which MHRI assigned the RSV Agreement, with MedImmune's consent, to MassBiologics. MHRI retained a portion of the royalty stream under the agreement.

[4] MHRI, the original licensor, did not have outside counsel. The agreement was negotiated on its behalf by its president, himself an attorney, but he had no intellectual property expertise or experience. There was no evidence that he was aware of the *Brulotte* decision.

antibody field, and it agreed not to compete against MedImmune's RSV antibody products.[5]

MedImmune proposed to pay MHRI and HJF each a modest 3% royalty on any anti-RSV antibody product sold by MedImmune. The royalty proposal, as accepted by MHRI and HJF, provided that MedImmune would pay this royalty regardless of which of the three entities contributed the technology incorporated into a commercialized product. In other words, consistent with the RSV Consortium's "all for one, one for all" nature, the parties agreed that if any of them could develop an anti-RSV antibody product, all would be rewarded. This arrangement maximized the RSV Consortium's chance of success because it incentivized each party to support all of the projects pursued by each of the Consortium's members. And it also spread the risk associated with focusing exclusively on any one project.

MedImmune's proposal gave MedImmune the flexibility it needed while providing fair compensation to MHRI and HJF for their development efforts. At the time the agreement was signed, MedImmune was a small, cash-strapped start-up that was not in a position to make substantial upfront or early milestone payments to MHRI or HJF as part of their compensation. MedImmune's proposal allowed it to delay compensation until it had successfully

---

[5] In a separate agreement, MHRI also agreed to carry out specified RSV research funded by MedImmune.

commercialized an anti-RSV antibody product. By its terms, the proposed license agreement and MedImmune's royalty obligations continued unless and until a party terminated the agreement under conditions specified in its termination provisions.[6]

MedImmune's proposal did not include an increased royalty rate in the event that MHRI should later obtain patents on its licensed technology, nor did it provide for a reduced royalty rate to take effect upon the expiration of any such patents. In fact, it did not tie the royalty to the use of any licensed patent or other technology. On the contrary, as noted above, the royalty obligation was deliberately uncoupled from any technology contributed by any of the parties. Again, the agreement aimed to incentivize the parties to work together by ensuring that they all would share in

---

[6] Under Massachusetts state contract law, agreements of indefinite duration, particularly those that contain express termination provisions, are valid and enforceable. *See, e.g.*, *BPR Grp. Ltd. P'ship v. Bendetson*, 906 N.E.2d 956, 964 (Mass. 2009); *Edmund D. Hewins, Inc., v. Marlboro Cotton Mills*, 136 N.E. 159, 160 (Mass. 1922); *G.M. Abodeely Ins. Agency, Inc. v. Commerce Ins. Co.*, 669 N.E.2d 787, 789-90 (Mass. App. Ct. 1996); *see also Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 261, 264-65 (1979) (enforcing parties' agreement to royalty of indefinite duration and observing that "[c]ommercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable....."). At trial, the Maryland state court held that under the RSV Agreement, MedImmune was obligated to continue paying royalties to MassBiologics as long as MedImmune manufactured or sold its Synagis® product.

any future commercial success regardless of which of the three ultimately developed a successful product. As the trial court would later find, the agreement was more akin to a co-development agreement than a traditional patent license agreement.

The RSV Consortium was a medical and commercial success beyond the hopes and dreams of its three members. Its first FDA-approved product, Respigam®, was a polyclonal antibody product developed by MHRI after substantial effort by its scientists. Respigam® provided revenue, a market presence, and other benefits to MedImmune during a critical period of its early growth. Some years later, MedImmune, with input from MHRI and HJF, developed Synagis®, a monoclonal antibody-based anti-RSV product that, by agreement of the parties, replaced Respigam®. Synagis® became a blockbuster drug, providing billions of dollars in revenue to MedImmune. Today, MedImmune's royalty payments to MassBiologics are based entirely on MedImmune's sales of Synagis®, which MedImmune itself patented and which does not use any of MHRI's patents. The royalties amount to about half of MassBiologics' annual budget and help to fund its public health mission.

The RSV Consortium exemplifies the innovation and social and economic good that can result from flexible, long-term contractual arrangements. MHRI's willingness to forego front-loaded monetary benefits and accept a low royalty rate in exchange for the prospect of a long-term, continuing royalty stream on future commercial products gave MedImmune the room to thrive and invest in its

early growth and development. The agreement also created incentives for the parties to collaborate with each other and share their research without concern that the financial rewards would be skewed according to which Consortium member contributed the ultimately successful technology, which Consortium member managed to secure patents, or when such patents were secured. MedImmune, its collaborators, the economy, patients, the public health, and society benefited from the flexibility and efficiency of the royalty agreement. It was procompetitive in every sense of the word.

B. MassBiologics' Licensee Brings a *Brulotte* Challenge Seeking to Avoid Its Promise to Share in the RSV Consortium's Success

After Synagis® achieved blockbuster status, MedImmune undertook a business strategy aimed at reducing or eliminating its third party royalty obligations. MedImmune had needed to obtain royalty-bearing licenses of many different proprietary technologies to develop Synagis®. Since 2002, MedImmune has sued at least seven of its licensors claiming that it was not required to pay royalties under those agreements under various legal theories. *E.g.*, *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

MedImmune's lawsuit challenging the RSV Agreement was among them. In 2011, without warning, MedImmune filed a complaint asking a Maryland state court to declare that MedImmune's royalty obligations had ended. *MedImmune, LLC v. Henry M. Jackson Foundation for the Advancement*

of Military Medicine, Inc., et al., Circuit Court for Montgomery County, Maryland, Civil No. 351304. The complaint said nothing about *Brulotte*, did not allege per se illegality of the RSV Agreement, and asserted no cause of action under federal law. Later in the course of the litigation, however, MedImmune contrived the idea that its royalty obligations could be challenged on the theory that the royalty arrangement proposed by MedImmune in 1989 was unlawful per se under *Brulotte*. Eventually, this theory came to dominate MedImmune's litigation strategy.

In support of its *Brulotte* theory, MedImmune seized on the fact that several years after execution of the RSV Agreement, MHRI received a patent covering the now-discontinued Respigam® product. Citing the circuit court of appeals' expansive interpretation of *Brulotte*, MedImmune urged that, as a matter of federal law, all of its royalty obligations based on sales of Synagis® terminated upon the expiration of MHRI's patents covering *Respigam*®, even though MedImmune has not sold Respigam® after MHRI's patents expired and even though MedImmune's sales of Synagis® do not involve any use of MHRI's patents. There was no evidence that MHRI possessed or attempted to exert any patent leverage in the negotiation.

C. The State Trial Court Rejects a Rigid Interpretation of *Brulotte* and Determines that It Does Not Apply to the Facts and Circumstances of the RSV Agreement

The Maryland trial court rejected MedImmune's *Brulotte* theory. After hearing testimony laying out the negotiating history of the RSV Agreement, the court found no evidence that MHRI had exerted any leverage based upon the potential issuance of MHRI patents. As noted, no patents or even patent applications existed at the time of the agreement, and the evidence established that it was MedImmune, not MHRI, that later insisted on applying for patents in MHRI's name. More generally, the Maryland court concluded that the agreement was in the nature of a co-development agreement quite unlike the agreement before this Court in *Brulotte*.

In its decision, the Maryland court analyzed *Brulotte* and this Court's subsequent decisions and concluded that *Brulotte* should not be read to impose an inflexible per se rule on any agreement containing a patent license, but rather indicated only that under certain factual circumstances, not present in the negotiation of the RSV Agreement, patent owners could not use patent leverage to require post-expiration royalties in exchange for the continued use of a licensed patent.

D. MassBiologics' Licensee Presses *Brulotte* on Appeal

MedImmune has appealed the trial court's ruling to Maryland's intermediate appellate court, and the latter court's ruling is under advisement. MedImmune's appeal attempts to exploit the Ninth Circuit's decision in Mr. Kimble's case and other circuit court decisions misapplying *Brulotte* to support its *Brulotte* challenge. MedImmune asserts, for example, that the effect of *Brulotte* is to make all of its royalty obligations unlawful per se from and after the date when MHRI's Respigam® patents expired in 2012, even though MedImmune's current royalty payments are based entirely on sales of Synagis®, the manufacture and sale of which involve no use of MHRI patents. Indeed, MedImmune presses its arguments even though its royalty obligations under the agreement do not arise from its use of *any* licensed technology, but rather as a result of the parties' agreement that MedImmune would pay a royalty on sales of all antibody products it sold in the RSV field, regardless of whether it uses licensed technology, in order to incentivize and reward collaborative research.

MedImmune also claims that the Maryland trial court's express factual finding – not challenged on appeal – that MHRI exerted no patent leverage in negotiating the agreement is irrelevant under *Brulotte*'s alleged "per se rule," and that *Brulotte* also makes it irrelevant that no patent applications existed at the time of the parties' agreement. According to MedImmune, even though it drafted the financial terms of the parties' agreement and

benefited from the flexible arrangements the parties negotiated, including a low royalty rate on sales of a therapeutic medicine, it now is free to escape its commitments and enjoy a windfall merely because the agreement did not include a "step-down" of the royalty rate after the expiration of any MHRI patents that might later issue, whether MedImmune used them or not.

MassBiologics rejects these overreaching contentions but, unfortunately, the continued vitality of the circuit court of appeals decisions, which those courts themselves have criticized, has forced MassBiologics to divert its limited resources to defending the enforceability of the RSV Agreement. The use of per se terminology in dictum in *Brulotte* and the expansive interpretation of *Brulotte* by several lower federal courts incentivize licensees to challenge the enforceability of mutually-agreed-upon royalty terms without regard to the reasonableness of those terms, the importance or lack of importance of any licensed patent rights, the certainty or strength of any patents, the absence of market power provided by the patents, the lack of any patent leverage or coercion, or the procompetitive or other beneficial effects of the agreement.

This Court should correct the improper application of *Brulotte* by the circuit courts of appeals and ensure that its holding in this case does not result in procompetitive agreements, like the RSV Agreement, becoming subject to attack simply because they relate to long-term business

relationships that eventually lead both to issued patents and royalty-bearing sales.

II. *Brulotte*, and This Court's Subsequent Decisions, Do Not Support an Inflexible Per Se Test

The circumstances of *Brulotte* and this Court's subsequent precedent illuminate this Court's holding in that case, and make clear that this Court did not intend to create the inflexible and far reaching rule that has been laid at its feet. The *Brulotte* Court worried that the post-expiration royalties in that case were the result of an unequal "bargaining position" deriving from the licensor's patent. 379 U.S at 32. What most of the circuit courts of appeals have overlooked is that many additional indicia of coercion beyond a post-expiration royalty appeared in the *Brulotte* contract, and they all played a role in this Court's conclusion that the royalty was unenforceable after expiration of the patent.

The Thys Company's contract for the sale of its hop picking machines did not merely require payments for the use of the patents after they had expired. Rather, the agreement also included strict limitations forbidding the licensee from moving the machines out of the territory or even assigning them to others after the patents had expired. *Id.* at 31-32. These use and transfer restrictions, operating together with the royalty provision, are what caused this Court to conclude that it was "unable" to conjecture what the bargaining power of the parties might have been absent patent leverage. Indeed, this Court referred to the post-expiration royalty as

"peculiarly significant" only because of these "other provisions in the license agreements." *Id.* at 31.

After having identified these additional, and unusual, post-expiration restrictions on the licensees' ability to use or alienate the machine, the Court consistently referred to the restrictions in the *Brulotte* license in the plural. For example, the Court concluded that "[t]hose restrictions... and their applicability to the post-expiration period is a telltale sign that the licensor was using the licenses to project its monopoly beyond the patent period." *Id.* at 32.

If the *Brulotte* Court truly meant to create a categorical, per se rule invalidating any promise to pay a post-expiration royalty based on use of the patent regardless of any other circumstances, this Court's discussion and consideration of the additional restrictions in the *Brulotte* license would have been superfluous, because the royalty provision alone would have been determinative. But that was not the analysis underlying the *Brulotte* holding; to the contrary, the Court deemed those additional factors equally important in considering the legality of the post-expiration royalty. *Id.* at 31. The Court also emphasized the licensor's use of patent "leverage" to project royalty payments beyond the life of the patent, *see id.* at 32, 33, further indicating that the existence of market power and patent leverage mattered. Clearly, the Court viewed the agreement as a whole as coercive and anticompetitive. Its one-time invocation of "unlawful per se" terminology drawn from antitrust law was dictum, unnecessary to the holding.

The circuit courts of appeals, in applying *Brulotte*, have largely ignored *Brulotte*'s actual facts, its analysis, its holding, and the importance of other restrictions beyond the post-expiration royalty that contributed to the Court's conclusion that the licensor in *Brulotte* exerted coercive patent leverage. Indeed, among the intermediate appellate courts, only the Ninth Circuit, the court from which this case is before this Court on certiorari, has delved into *Brulotte*'s facts and analysis in an effort to determine how that case should correctly be applied. As that court explained in *Zila, Inc. v. Tinnell*, 502 F.3d 1014 (9th Cir. 2007), which is the precedent applied below to decide Mr. Kimble's case:

> *Brulotte* indicates that it is because of post-patent-expiration contractual restrictions *other* than royalties that the Thys Company could not collect the royalties after the patents expired.... It is only "in view of [these] *other* provisions of the license agreements" that the Court found the unchanging royalty rate to be "peculiarly significant." The Court emphasized that the presence of "*[t]hose* restrictions," rather than the royalty alone, in the "post-expiration period [was] a telltale sign that the licensor was using the licenses to project its monopoly beyond the patent period."

Id. at 1021 (alterations in original) (quoting *Brulotte*, 379 U.S. at 29, 31-32). The Ninth Circuit concluded that, were it "writing on a clean slate," it would decide Zila's case based on this interpretation of the Court's reasoning in *Brulotte*; however, the Ninth

Circuit instead decided, in deference to its sister circuits, that it would join them in "ignor[ing] the relevance of the restrictions on use" in the *Brulotte* Court's analysis. *Id.* at 1022.[7]

Reading *Brulotte* to articulate an inflexible per se rule that ignores lack of market power, leverage, or coercion and requires only the existence of a post-expiration royalty also flies in the face of this Court's subsequent decisions examining *Brulotte*. Those cases demonstrate that dicta in *Brulotte* should not be read to impose per se illegality no matter the circumstances, the nature of the contract, or the absence of patent leverage. If *Brulotte* really did impose a strict per se rule – where all evidence bearing on the exercise of patent leverage was irrelevant – then any and all royalties extending beyond the life of a patent would be invalid. But, in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), this Court upheld the enforceability of a license to a patent application and other intellectual property that imposed a royalty of indefinite

---

[7] By contrast, in *Cordance Corp. v. Amazon.com Inc.*, 727 F. Supp. 2d 310, 335-37 (D. Del. 2010) the district court interpreted *Brulotte* in light of its facts and the principles underlying the doctrine of patent misuse. The court concluded that *Brulotte* did not restrict a court's ability to consider the circumstances of a license agreement, stating that "the existence of post-expiration royalty obligations... does not dictate that a court find patent misuse *per se*." *Id.* at 33. Rather, the court explained, "what courts must be wary of – what the doctrine of patent misuse aims to guard against – are coercive attempts to use a patent monopoly as leverage." *Id.* at 335.

duration. *Id.* at 265. The Court cited the agreement's step-down in the royalty rate if no patent issued as evidence that there was no use of patent leverage in negotiating the contract. *Id.*[8]

Aronson's holding makes clear that *Brulotte* did not impose a formalistic per se rule divorced from the underlying circumstances surrounding the contract negotiation. The *Aronson* Court recognized that a pending patent application gives the applicant "some additional bargaining power" in negotiating a royalty agreement. *Id.* But the Court took care to note that "the amount of leverage arising from a patent application depends on how likely the parties consider it to be that a valid patent will issue." *Id.* The Court concluded that, under the circumstances, Ms. Aronson and her licensee "assigned a substantial likelihood to that contingency." *Id.* These observations would be meaningless if evidence bearing on patent leverage was irrelevant to

---

[8] Notably, in *Aronson*, the agreement provided for an initial 5% royalty rate while the licensor's patent application was pending, subject to a reduction to 2.5% if no patent issued within five years. 440 U.S. at 259. Although this provision imposed a higher royalty for licensed patent rights ***before*** any patent term began – and thus could be said to enlarge the period of patent monopoly beyond the statutory term to cover the pre-issuance period – the Court did not suggest that this aspect of the royalty requirement implicated any per se illegality. In this respect as well, *Aronson* shows that for more than thirty years this Court has declined to treat *Brulotte* as a rule of per se illegality. *Aronson* also belies any suggestion that patent policy alone motivated the Court's analysis.

agreements for post-expiration royalties under *Brulotte*.

The federal circuit courts of appeals have largely ignored these aspects of *Aronson*. They have, instead, interpreted *Aronson* as simply creating an exception to *Brulotte*'s supposed per se rule – a safe harbor, in effect – that immunizes a license from a *Brulotte* challenge as long as the royalty rate is subject to a post-expiration step-down. But, if there is one exception to *Brulotte*'s supposed per se rule, then why should not there be others? If a step-down was compelling evidence that the licensor lacked sufficient leverage to coerce the post-expiration royalty, then why should not other evidence to that effect also be considered?

This Court's decision in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) similarly contradicts the interpretation of *Brulotte* as a rule of per se illegality. In *Zenith*, this Court discussed *Brulotte* in the context of licenses requiring payment of royalties on the sale of both patented and unpatented products. The Court distinguished *Brulotte* as arising in a "particularized context." *Id.* at 136.

The Court further explained that "[i]f convenience of the parties rather than patent power dictates the total-sales royalty provision, there [is] no misuse of the patents and no forbidden conditions attached to the license." *Id.* at 138. The Court agreed that the mere existence of a royalty provision that arguably could extend the scope of the patent was not enough to invalidate the royalty. As the

Court explained, "[n]o such inference follows from a mere license provision measuring royalties by the licensee's total sales even if, as things work out, only some or none of the merchandise employs the patented idea or process, or even if it was foreseeable that some undetermined portion would not contain the invention." *Id.* This is because it was possible that "the licensee as well as the patentee would find it more convenient and efficient from several standpoints to base royalties on total sales than to face the burden of figuring royalties based on actual use." *Id.*

Thus, the central question for the Court in *Zenith* was not rote application of some categorical per se rule, but, rather, an issue of fact: whether the licensor in fact had "used its patent leverage to coerce a promise to pay royalties on radios not practicing the learning of the patent." *Id.*

Zenith teaches that where the royalty provisions were entered into to suit the parties' convenience, and not as a result of the coercive use of patent power, the license should be enforced. The Court's balanced analysis in that case demonstrates the error of those who woodenly insist that dicta in *Brulotte* should be applied in all circumstances irrespective of the nature of the agreement, the background facts, economic reality, or the parties' intentions.

As Mr. Kimble's case and other similar cases show, the circuit courts of appeals have failed to self-correct their overly broad application of *Brulotte*. *See* United States Certiorari Br. at 20 (recognizing

that "lower courts or contracting parties may sometimes misunderstand *Brulotte's* narrow scope"). If the Court does not overrule *Brulotte* outright, it should provide direction to trial and appellate courts, and licensing parties, as to *Brulotte*'s narrow holding to correct the mischief that its misreading by other courts as a rule of per se illegality has engendered.

III. The Court Should Reject Any Per Se Rule and Adopt a Flexible, Rule of Reason Analysis

If this Court concludes that *Brulotte* does impose on patent licenses a categorical per se proscription against post-expiration royalties for use of a patented invention, it should be overruled and replaced with a case-by-case, rule of reason analysis.

A. A Per Se Application of *Brulotte* Is Economically Irrational and Inconsistent with This Court's More Recent Jurisprudence

As this Court recently reemphasized in the context of patent settlement agreements, the "abandonment of the 'rule of reason' in favor of presumptive rules... is appropriate only where an observer with even a rudimentary understanding of economics could conclude that the arrangements in question would have an anticompetitive effect on customers and markets." *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2237 (2013) (quoting *California Dental Ass'n v. FTC*, 526 U.S. 756, 770 (1999)).

Patent licenses allowing for post-expiration royalties do not meet this test: they can be

economically beneficial and have a procompetitive effect. As the government acknowledged in its brief in the certiorari phase of this case, "licensing arrangements that extend patent royalties beyond a patent term may sometimes be economically efficient." United States Certiorari Br. at. 14.

For example, the suggestion that post-expiration royalties are inefficient because they burden licensees ignores economic realities. In practice, it can equally be the *licensee* who prefers to spread the licensor's compensation over a longer period based upon sales that accrue post-expiration, so that the licensee does not bear all the risk of a failed product, or so that the licensee can negotiate a lower royalty rate for a longer period of time. *See* Harold See & Frank M. Caprio, *The Trouble with Brulotte: the Patent Royalty Term and Patent Monopoly Extension,* 1990 Utah L. Rev. 813, 851 (1990) ("Given the choice between a lump sum payment of $100,000 or royalty payments that will vary directly with the return to the licensee, but with an expected value of $100,000, risk averse licensees will select the latter."); *see also Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1016 (7th Cir. 2002) (evidence established that it was the licensee who proposed that royalties continue post-expiration, in exchange for lower royalty rate, to reduce licensee's annual payments).

Similarly, in the case of MassBiologics' RSV Agreement with MedImmune, it was MedImmune that proposed a low 3% royalty rate on all future sales, including sales made after the expiration of any licensed patents that might later issue to MHRI.

Consider the hypothetical inventor who only wishes to ensure a lifetime income stream from his valuable invention. A licensee agrees to spread its royalty payments over the life of the inventor, but does not want to take the risk required by fixed annual payments knowing that the patented product may not succeed. It therefore proposes to grant the inventor an annual lifetime royalty based upon a percentage of product sales that accrue each year. The parties carefully set a royalty rate so that the expected value of those annual payments is about $100,000 per year based on their estimated sales projections. According to Respondent's position, because this license requires payments based upon post-expiration accrual and use, the accommodation by the licensor is strictly prohibited by *Brulotte*. This is true even if the arrangement is the parties' preferred mechanism for addressing the possibility that the product will be a commercial failure.[9]

Under Respondent and the government's logic, however, if the inventor instead rejects the licensee's proposal and insists that the licensee pay a fixed $100,000 annual payment, the agreement would survive because, in that case, the royalty is not tied to post-expiration accrual or use. Similarly, the parties might instead require the licensee to make a single upfront payment exactly equal to the expected present value of the inventor's desired $100,000

---

[9] As this example shows, a post-expiration royalty is not necessarily better for the licensor; such an arrangement could benefit the licensee if the future sales are less than the parties initially projected.

annuity stream or, alternatively, the licensee could give the inventor equity in the licensee's business expected to provide about $100,000 annually in preferred dividend payments. Neither of these transactions would run afoul of *Brulotte* either, under even the most extreme interpretations of that case, because they do not require post-expiration royalties at all.[10]

What is the principled basis for finding that these agreements pass muster, while one that protects the risk-averse licensee against the risk of product failure (and gives the licensor additional benefits in the event the product succeeds) does not? Arbitrarily pronouncing some business transactions unlawful merely because they use sales that accrue post-expiration as a metric to compensate the patent owner for licensing the patent during its term is irrational, explained only by empty formalism and unwarranted reliance on discarded theories of competition law.

The mistaken assumption that apparently underlies a rigid per se application of *Brulotte* is that an agreement to pay post-expiration royalties means that the licensor has extended the term of the patent. Yet, as courts and commentators have recognized, a post-expiration royalty provision does not and cannot lengthen the period of exclusive

---

[10] Some, like MedImmune, have taken the extreme position that *Brulotte* proscribes any post-expiration payment whatsoever, even if not based on post-expiration use of the licensor's patent.

rights conferred by a patent. By statute, all patents are of limited term, and will expire in accordance with law, after which the entire public, including the licensee, will be free to practice the patented invention. A patentee, therefore, has only its rights during the patent term to sell – no more, no less – and prospective licensees know this at the time they negotiate a patent license. As one commentator has explained,

> When the patent term ends, the exclusive right to make, use or sell the licensed invention also ends. Because the invention is available to the world, the license in fact ceases to have value. Presumably, licensees know this when they enter into a licensing agreement. If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments on the licensees' assessment of the value of the license *during the patent period.* These payments, therefore, do not represent an extension in time of the patent monopoly.

See & Caprio, *supra*, at 814; *see also* Louis Altman, *Is There an Afterlife? The Effect of Patent or Copyright Expiration on License Agreements*, 64 J. Pat. & Trademark Off. Soc'y 297, 302 (1982) ("[L]icensees will not normally be willing to pay a royalty, after patent expiration, for what their competitors can obtain without charge.... They only pay what they must in order to use the invention during the time when the patent would otherwise bar their way.").

To put it another way, a rational patent licensee will pay no more for a license than the value it can derive from the patents during their term. If there is any presumptive rule to be applied, it should be that royalty terms of a patent license, regardless of how they are structured, represent nothing more than compensation for the value of the patented invention during its term. *See* Note, *An Economic Analysis of Royalty Terms in Patent Licenses*, 67 Minn. L. Rev. 1198, 1219 (1983) ("Since the postexpiration license is useless to the licensee, he or she will simply regard it as part of the price for the preexpiration license. Accordingly, a rational licensee would not pay more for a license requiring royalty payments after the expiration of the underlying patent than for one which terminated upon expiration of the patent."); See & Caprio, *supra*, at 851 ("If royalties are calculated on post-patent term sales, the calculation is simply a risk-shifting credit arrangement between patentee and licensee. The arrangement can be no more than that, because the patentee at that time has nothing else to sell."). A per se application of *Brulotte* turns economics on its head: it not only presumes that all licensees who agree to a post-expiration royalty are irrational, it also forecloses the factfinder from determining otherwise.

B. Patent Policy Does Not Justify a Per Se Rule

Respondent and the government argue that this Court's antipathy to per se rules in the competition law context is inapposite because, they claim, *Brulotte* is based on patent policy. They do not

identify any provision of the patent statute that bars post-expiration royalties in exchange for the grant of a license. *See* 1 Herbert Hovenkamp, et al., *IP and Antitrust* § 23.2a (Supp. 2009) (noting that the patent statute "nowhere condemns" a contract providing for patent royalties on post-expiration use). And they mistakenly assume that the choice between patent and competition policy is binary, and mutually exclusive. Not so. As this Court recently explained in *Actavis*, "it would be incongruous to determine antitrust legality [of a patent settlement agreement] by measuring the [agreement's] anticompetitive effects solely against patent law policy, rather than by measuring them against procompetitive antitrust policies as well." 133 S. Ct. 2223, 2231 (2013). As the Court noted, "rather than measure the length or amount of a restriction solely against the length of the patent's term," a court should instead conduct a more flexible inquiry into the economics of the transaction. The Court further admonished, "[w]hether a particular restraint lies beyond the limits of the patent monopoly is a *conclusion* that flows from that analysis and not... its starting point." *Id.* at 2231-32 (emphasis in original).

Per se application of *Brulotte* wrongly assumes that a patent by itself confers coercive market power on a patentee. This Court has since unanimously overruled the presumption that a patent confers market power in the relevant market. *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 31, 39-47 (2006); *see also* 35 U.S.C. § 271(d)(5) (eliminating any presumption of market power in tying patent). As this Court explained in *Actavis*, in rejecting a

categorical rule for evaluating reverse payment patent settlement agreements, the legality of such an agreement presents numerous "complexities" and "depends upon its size, its scale in relation to the payor's anticipated future litigation costs, its independence from other services for which it might represent payment, and the lack of any other convincing justification" and "may also vary as among industries." 133 S. Ct. at 2237. Patent license agreements – of which patent settlement agreements are a subset – are no less complex, and they are just as poor a fit for categorical rules.

The manner in which *Brulotte* has been applied in the context of "hybrid licenses" covering both patented and non-patented technology also shows how disconnected it has become from the goals that Respondent and the government claim justify it. The circuit courts of appeals have enforced post-expiration royalty provisions in such licenses when the license reduces the royalty rate upon patent expiration, as in *Aronson*. But this arrangement – which supposedly disproves the existence of patent leverage – is often contrived for no reason other than to escape *Brulotte*. In common practice, the parties simply insert an arbitrary stepped down royalty rate, in effect creating a *Brulotte* safe harbor. Courts seem to accept the step-down figure without inquiry into whether the differential truly reflects the relative value of patent and nonpatent rights. Yet, if a licensor has sufficient leverage to obtain a post-expiration patent royalty without a step-down, it likely also has the leverage to extract a minimally

reduced post-expiration royalty that still greatly exceeds the value of the nonpatent rights.[11] Thus, because a per se rule ignores evidence of leverage and the economics of the transaction, it does little to stop a licensor who actually has market power and knows of the step-down safe harbor from doing what Respondent and the government wish to prevent.

Equally possible is that the nonpatent rights have as much or greater value than the patent rights; for example, they may include licensed trade secrets that independently block the licensee's product from commercialization even without a patent. Yet if the agreement also confers a license even to one patent application – no matter how weak, easy to design around, or unlikely to issue as a patent at the time of negotiation – avoidance of *Brulotte*'s alleged per se rule can force the risk-averse licensor to accept a lower post-expiration royalty for its trade secrets simply to show that the

---

[11] In the *MedImmune* litigation, MedImmune's expert espoused the view that the royalty provision in the RSV Agreement would have satisfied *Brulotte* if the royalty rate had *increased* when MHRI's patents issued and then returned to 3% when they expired. Ironically, under this scenario, the licensee would have ended up paying more in royalties than is required by the actual royalty provision it challenges. This reasoning makes no sense. The fact that the license does not require a higher royalty rate in the event a patent should later issue only underscores the absence of market power conferred by the licensor's prospect of a patent and the absence of any patent leverage in the negotiations. The testimony of MedImmune's expert highlights the absurd lengths to which practitioners today will go to employ *Aronson* as a *Brulotte* safe harbor, without regard to economic justification or common sense.

entire royalty has not been tainted by the concomitant grant of patent rights.

Requiring a royalty step-down upon patent expiration in these circumstances is unfair, economically inefficient, and subverts, rather than supports, patent policy. Indeed, if the licensor has valuable trade secrets, it may be better off filing no patents at all, and thus disclosing nothing of its invention to the public. In that event, patent law achieves exactly the opposite of what it is supposed to do by discouraging public disclosure of inventions and the sharing of technology.

If per se application of *Brulotte* were justified purely by patent policy, one would expect similar categorical rules in other circumstances where licenses required payment for activities outside the four corners of the patent grant. Yet, exactly the opposite is true. In other contexts, this Court has rejected categorical rules. For example, in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, this Court refused to invalidate an agreement licensing a patent pool in which a licensee agreed to pay royalties on an entire group of patents, even after some had expired and even if the licensee did not practice any of the patents at all. 339 U.S. 827 (1950), *overruled on other grounds by Lear, Inc. v. Adkins*, 395 U.S. 653, 836 (1969). This Court held that per se illegality was inappropriate, because "[s]ound business judgment could indicate that such payment represents the most convenient method of fixing the business value of the privileges granted by the licensing agreement." *Id.* at 834.

Similarly, in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) this Court explained that parties could agree to a license in which all articles sold by the licensee were subject to a royalty even though only some, or perhaps none, of those products might actually infringe that patent. *Id.* at 138. The total sales royalty was permissible so long as the royalty provision was entered into for the convenience of the parties, rather than as a product of coercion. *Id.* In so holding, this Court again rejected an argument that the total sales royalty provision should be unlawful per se.

Notably, in *Brulotte* itself, a key underpinning of the Court's reasoning was that a provision requiring "royalty payments beyond the life of the patent" was analogous to "an effort to enlarge the monopoly of the patent" by tying use of the patented article to the purchase of unpatented ones. 379 U.S. at 33. But since then, in *Illinois Tool*, the Court rejected per se illegality for patent tying arrangements, agreeing that "[m]any tying arrangements, even those involving patents..., are fully consistent with a free, competitive market." 547 U.S. at 45.

Zenith, *Automatic Radio*, and *Illinois Tool* make clear that there is not, as both Respondent and the government have argued, a monolithic patent policy justifying per se invalidation of any royalty arrangement extending beyond the patent grant, without consideration of the convenience of the parties, the absence of market power, patent leverage, anticompetitive effects, or the presence of procompetitive justifications. To the contrary, this Court's patent law cases apply just as flexible an

inquiry as conducted by this Court in its modern antitrust jurisprudence.

C. A Per Se Application of *Brulotte* Creates a Dangerous and Unjust Trap for the Unwary

The economic irrationality of a per se application of *Brulotte* is compounded by the draconian punishment – unenforceability of the entire post-expiration royalty, including amounts that may indisputably reflect the value of nonpatent rights – that the lower courts impose on the unwitting licensor who omits an arbitrary step-down upon patent expiration. This, as in Mr. Kimble's case, can occur no matter how obviously valuable the nonpatent rights were or how little value the parties ascribed to the patents. In the case of MassBiologics, there was no evidence that MHRI's negotiator knew anything about *Brulotte* when he accepted MedImmune's proposed royalty structure. The circuit courts of appeals' categorical refusal to evaluate the economics of the transaction simply because patents are involved not only defies logic and reason but also can result in manifest injustice.

As Respondent has conceded and the above discussion shows, patent attorneys familiar with *Brulotte* can circumvent its strictures through careful drafting, such as including an arbitrary royalty rate step-down. But then, what is the point of *Brulotte*? Large companies with actual market power and the willingness to exert it can force licensees to accept carefully structured agreements that benefit patent owners but slip past *Brulotte*. By

contrast, small and unsophisticated inventors, who cannot afford savvy, high-priced patent attorneys and may be unaware of *Brulotte*, are punished for their failure to insert just the right incantations into their license agreements to take them outside of *Brulotte*. This serves no purpose other than creating a dangerous trap for the unwary and an incentive for a licensee later to break its contractual promises in order to exploit what is now, in effect, a hyper-technicality with no doctrinal foundation.

This is no hypothetical, as *Scheiber v. Dolby Laboratories, Inc.* shows. In that case, Peter Scheiber, an individual musician turned inventor, agreed to license to Dolby his surround sound invention in settlement of a lawsuit. 293 F.3d 1014, 1016 (7th Cir. 2002). In negotiations, it was Dolby the licensee, not Scheiber, who proposed spreading royalty payments beyond the term of the patents, in exchange for a reduced royalty, in order to make the annual payment more palatable to Dolby itself. Scheiber agreed. *Id.* Years later, after having enjoyed the benefit of the reduced royalty rate it obtained through its promise for a longer payment term, Dolby seized on *Brulotte* as the basis for refusing to pay upon the patent's expiration. *Id.* The Seventh Circuit reluctantly agreed, and struck down the post-expiration royalty in its entirety.

Proponents of *Brulotte* argue that a bright line rule is easier to police. But prohibiting courts from evaluating the facts and circumstances results in obvious unfairness, as both Mr. Scheiber's and Mr. Kimble's cases show. It punishes licensors who, unaware of *Brulotte*'s proscriptions, agree to a lower

royalty rate in exchange for a longer period of payments, simply because they did not include an arbitrary step-down in the royalty rate post-expiration to assure immunity from *Brulotte*'s alleged grasp. It grants an unjust windfall to licensees when they avoid payment of agreed-upon post-expiration royalties after having earlier received, in exchange, lower royalty rates or other concessions, such as omission of up-front payments and milestones. This injustice is a great price to pay for the administrative convenience allegedly provided by a bright line rule, particularly when flexible analyses informed by the rule of reason work so well elsewhere.

CONCLUSION

For the foregoing reasons, MassBiologics respectfully requests that the Court reverse the decision below and hold that patent royalty provisions extending beyond the term of a licensed patent are not per se unlawful.

Respectfully submitted,

DONALD R. WARE
Counsel of Record
Special Assistant
Attorney General of the
Commonwealth of
Massachusetts

JEREMY A. YOUNKIN
MARCO J. QUINA
Special Assistant
Attorneys General of
the Commonwealth of
Massachusetts

FOLEY HOAG LLP
155 Seaport Boulevard
Boston, MA 02210
(617) 832-1000
dware@foleyhoag.com

February 4, 2015

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
MAR 6 - 2015
OFFICE OF THE CLERK

Nos. 13-720

IN THE

Supreme Court of the United States

STEPHEN KIMBLE and ROBERT MICHAEL GRABB,
Petitioners,

v.

MARVEL ENTERPRISES, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF WASHINGTON LEGAL FOUNDATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

Richard A. Samp
(Counsel of Record)
Markham S. Chenoweth
Washington Legal Foundation
2009 Mass. Ave., NW
Washington, DC 20036
(202) 588-0302
rsamp@wlf.org

Date: March 6, 2015

QUESTION PRESENTED

The courts below decided this case on the assumption that the parties' 2001 settlement agreement could be construed as requiring royalty payments for use of Petitioners' patent after its expiration. This Court held in *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964), that a patent royalty agreement is unenforceable to the extent that it contemplates accrual of royalties "beyond the expiration date of the patent." The sole question presented in the Petition is:

Whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES v

INTERESTS OF *AMICUS CURIAE* 1

STATEMENT OF THE CASE 2

SUMMARY OF ARGUMENT 4

ARGUMENT 7

I. PETITIONERS HAVE PROVIDED NO COMPELLING REASON TO OVERTURN *BRULOTTE* 7

A. Contracting Parties Have Relied on *Brulotte* for 50 Years; *Stare Decisis* Considerations Are at Their Acme in Cases Where Reliance Interests Are at Stake 9

B. *Stare Decisis* Has "Special Force" with Respect to Statutory Construction Decisions, Including Patent Law Decisions 13

C. The Court's Antitrust Case Law Is Irrelevant to the *Stare Decisis* Issue 14

Page

II. *BRULOTTE* ESTABLISHED A BRIGHT-LINE RULE THAT HAS NO ADVERSE ECONOMIC IMPACT AND DOES NOT INTERFERE WITH CONTRACTING RIGHTS 17

A. *Brulotte* Established a Clear, Easily Administered Background Rule Governing Enforcement of Contracts . . . 17

B. *Brulotte* Affords Contracting Parties Broad Leeway in Establishing Compensation Terms Governing Patent Use 20

C. Concerns That Patent Terms Are Too Short to Encourage Investment in Promising Academic Research Should Be Addressed to Congress 21

III. OVERTURNING *BRULOTTE* WILL LEAD TO INCREASED LITIGATION OVER LONG-FORGOTTEN LICENSE AGREEMENTS 23

CONCLUSION 24

TABLE OF AUTHORITIES

Page(s)

Cases:

Aronson v. Quick Point Pencil Co.,
440 U.S. 257 (1979) 4, 18
Bowman v. Monsanto Co.,
133 S. Ct. 1761 (2013) 1
Brulotte v. Thys Co.,
379 U.S. 29 (1964) . . . . . *passim*
Burnet v. Coronado Oil & Gas Co.,
285 U.S. 393 (1932) 20
Caraco Pharm. Labs., Inc. v. Novo Nordisk A/S,
132 S. Ct. 1670 (2012) 1
Continental T.V., Inc. v. GTE Sylvania Inc.,
433 U.S. 1977 (1977) 15
Halliburton v. Erica P. John Fund, Inc.,
134 S. Ct. 2398 (2014) 13
John R. Sand & Gravel Co. v. United States,
552 U.S. 130 (2008) 9, 13, 19
Kurns v. Railroad Friction Products Corp.,
132 S. Ct. 1261 (2012) 8
Lear, Inc. v. Adkins,
395 U.S. 653 (1969) 17, 19
Leegin Creative Prods., Inc. v. PSKS, Inc.,
551 U.S. 877 (2007) 16
Payne v. Tennessee,
501 U.S. 808 (1991) 9
Scheiber v. Dolby Labs., Inc.,
293 F.3d 1014 (7th Cir. 2002) 8, 21
Scott Paper Co. v. Marcalus Mfg. Co.,
326 U.S. 249 (1945) 14
State Oil Co. v. Khan,
522 U.S. 3 (1997) 15, 16

Page(s)

The Propeller Genesee Chief v. Fitzhugh, 12 How. (53 U.S.) 443 (1851) 10
Therasense Inc. v. Becton, Dickinson and Co., 649 F.3d 1276 (Fed. Cir. 2011) (*en banc*) 1
Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969) . . 20

Statutes:

Sherman Act, 15 U.S.C. § 1 15

Drug Price Competition and Patent Term Restoration Act ("Hatch Waxman Act"), Pub. L. No. 98-417 22

35 U.S.C. §154 .... 5, 14

Miscellaneous:

John D. Calamari & Joseph M. Perillo, *The Law of Contracts* §§ 16.1 .6 (4th ed. 1998) ... 19

Uniform Commercial Code, § 2-314 19

INTERESTS OF *AMICUS CURIAE*

Washington Legal Foundation (WLF) is a public interest law firm and policy center with supporters in all 50 States. WLF devotes a substantial portion of its resources to defending free enterprise, individual rights, a limited and accountable government, and the rule of law.[1]

To that end, WLF has regularly appeared before this Court and other federal courts in cases raising important issues regarding the scope and enforceability of patents. *See, e.g., Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013) (patent exhaustion doctrine); *Caraco Pharm. Labs., Inc. v. Novo Nordisk A/S*, 132 S. Ct. 1670 (2012) (counterclaims in patent infringement suits); *Therasense Inc. v. Becton, Dickinson and Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (*en banc*) (inequitable conduct doctrine).

WLF believes that adherence to *stare decisis* is particularly important in patent law because many patent holders and licensees have reasonable investment-backed expectations that the courts will continue to adhere to long-settled patent law doctrines. WLF is concerned that the relief requested by Petitioners—the abandonment of the doctrine established more than 50 years ago in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), and never subsequently called into question by either Congress or this Court—would

---

[1] Pursuant to Supreme Court Rule 37.6, WLF states that no counsel for a party authored this brief in whole or in part; and that no person or entity, other than WLF and its counsel, made a monetary contribution intended to fund the preparation and submission of this brief. All parties have consented to the filing of this brief; letters of consent have been lodged with the clerk.

undermine the reasonable expectations of numerous parties to patent licensing agreements.

Moreover, WLF is worried that overturning *Brulotte* could have unforeseen negative consequences. For example, in a world where patent trolls are thriving and litigation funding is rampant, "zombie" litigation—in which long-ago licenses are dredged up for new rounds of litigation—is an all-too-likely response to a decision overturning *Brulotte*.

Petitioners spend virtually all of their brief arguing that *Brulotte* was wrongly decided because it misconstrued federal patent policy. WLF believes that such arguments put the cart before the horse. Rather, the principal inquiry should focus on whether Petitioners have demonstrated compelling grounds for jettisoning the doctrine of *stare decisis*, an inquiry in which the "correctness" of the initial statutory interpretation plays at most a minor role. WLF believes that the substantial reliance interests engendered by *Brulotte* dictate that any reversal of the applicable patent law should come from Congress, not the courts.

STATEMENT OF THE CASE

The facts of the case are set out in detail in the brief of Respondent. WLF wishes to highlight several facts of particular relevance to the issues on which this brief focuses.

Petitioner Stephen Kimble in 1990 met with the

President of Respondent's predecessor-in-interest[2] to discuss his idea of marketing a toy that allowed a child to "role play" as Spider-Man. Kimble filed suit against Marvel in 1997, claiming breach of an oral contract allegedly entered into during the 1990 meeting, as well as infringement of the " '856 Patent," Kimble's patent on his role-play toy. Pursuant to a 2001 settlement agreement, Kimble and Petitioner Robert Grabb sold the patent to Marvel and released all claims. In return, Marvel agreed to pay $516,000 plus 3% of "net product sales" of certain Spider-Man-related products. The Settlement Agreement did not specify how long the royalty payments were to continue. The '856 Patent expired in 2010.

Marvel paid Petitioners more than $6 million pursuant to the Settlement Agreement. A dispute later arose regarding the amount of royalties due under the Settlement Agreement, and Petitioners filed suit for breach of the Agreement. Among other rulings, the district court determined—based on its understanding of *Brulotte*—that the Settlement Agreement was unenforceable to the extent that it contemplated royalty payments on any product sales occurring after the 2010 expiration of the '856 Patent. Pet. App. 33-37. Following resolution of all other contract issues, Petitioners appealed the *Brulotte* issue to the Ninth Circuit.

The appeals court affirmed. Pet. App. 1-26. While noting that *Brulotte*'s rationale has been subject

---

[2] Respondent and its predecessors are referred to herein as "Marvel."

to considerable criticism, the court rejected any suggestion that it should not be bound by this Court's decision: "*Brulotte* and its progeny are controlling. We are bound to follow *Brulotte* and *cannot deny that it applies here.*" *Id.* at 25-26 (emphasis added).

The certiorari petition raises one issue only: "Whether this Court should overrule *Brulotte*." Accordingly, whether *Brulotte* actually applies to the Settlement Agreement is *not* at issue before this Court. Petitioners argued below that, for several reasons, *Brulotte* did not bar royalty payments for product sales occurring after expiration of Petitioners' patent. For example, they argued that the Settlement Agreement contemplated that post-2010 royalties were intended as a payment under the alleged 1990 oral contract, not as a payment for the sale of patent rights.[3] The appeals court rejected those claims, citing *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), in which this Court explained *Brulotte*'s application to cases in which the rationale for royalties was arguably based on something other than use of a patented product. Pet. App. 16-17. Petitioners did not seek review of those portions of the Ninth Circuit's decision, and therefore they are not properly before the Court.

SUMMARY OF ARGUMENT

In 1964, *Brulotte* established a bright-line rule

---

[3] Also, the Solicitor General's invitation brief noted (at 21) that *Brulotte* arose in the context of a patent *license* and opined that the Court had not previously determined whether *Brulotte* should apply to royalties payable (as here) as part of the purchase price for the *sale* of a patent.

regarding patent royalty agreements: patent law bars the enforcement of such agreements to the extent that they "allow[ ] royalties to be collected which accrued after the last of the patents incorporated into the [patented product] ha[s] expired." *Brulotte*, 379 U.S. at 30. The Court reasoned, "The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when . . the patent has entered into the public domain" by virtue of expiration of the patent term prescribed by 35 U.S.C. § 154. *Id.* at 33. The *Brulotte* rule has stood for more than 50 years. During those years, countless patent royalty agreements have been negotiated with the understanding that their terms were to be construed in light of *Brulotte*.

Reliance on that understanding is eminently reasonable in the absence of any actions by either Congress or this Court calling *Brulotte* into question. Nor has the *Brulotte* rule deterred usage of innovative products by inhibiting the negotiation of royalty agreements. Although some commentators have criticized the decision's understanding of federal patent policy, *Brulotte* creates a narrow, bright-line rule that does not interfere with a patentee's ability to negotiate a fair royalty rate. Under those circumstances, *stare decisis* dictates that any reversal of the applicable patent law should come from Congress, not the courts.

Petitioners seek to downplay reliance concerns. They argue that the only parties who might have relied on *Brulotte* are duplicitous licensees who hoodwinked patent holders by agreeing to pay patent royalties for post-expiration use, while intending all along to invoke *Brulotte* to avoid their contractual obligations once the

patent expires. Pet. Br. 57. That is absurd. Attorneys negotiating a patent royalty agreement are unlikely, in light of *Brulotte*, to include lengthy contractual provisions governing the licensee's obligations to pay royalties for post-expiration use of the patented product. Attorneys negotiating on behalf of patentees are at least as likely as attorneys for licensees to be aware of *Brulotte*. When a patent royalty agreement omits any detailed discussion of royalties for post-expiration use, the most plausible understanding of the parties' intent is that the parties deemed such discussion unnecessary in light of *Brulotte*. Yet, a decision overruling *Brulotte* and applying the decision to existing contracts would likely expose licensees to substantial, unanticipated royalty demands.

Courts have not experienced difficulty applying the straightforward *Brulotte* rule, nor does the decision interfere with the ability of patentees to negotiate fair terms for the use of their patents. As the economists cited by Petitioners acknowledge, a patentee denied the right to charge for post-expiration use of the patent can avoid any loss of income by demanding a higher premium for pre-expiration use. If potential licensees conclude that the patented idea is worth the higher asking price yet they lack adequate cash flow to make all royalty payments in advance of expiration of the patent, *Brulotte* authorizes enforcement of contracts that require post-expiration royalty payments—provided only that the payments are for pre-expiration use. Moreover, Congress has amended the patent laws to extend the term for certain types of patents whose complex nature makes them more difficult to bring to market in advance of expiration of the usually applicable patent term.

Petitioners note that the Court has adhered less strictly to *stare decisis* when the statute being re-examined involves the federal antitrust laws. But although the *Brulotte* decision cited several antitrust precedents by way of analogy, the decision was based on the Court's interpretation of *patent* laws adopted by Congress, not on *antitrust* laws. Indeed, the decision did not expose patentees to any potential antitrust liability; it merely barred patentees from enforcing contracts calling for royalty payments for use of their patent after expiration of the exclusivity period prescribed by Congress. *See, e.g., Brulotte*, 379 U.S. at 34 (stating that "an attempt to project [the patent monopoly] into another term by continuation of the licensing agreement is unenforceable."). Moreover, unlike this case, the antitrust cases cited by Petitioners did not involve significant reliance interests.

ARGUMENT

I. PETITIONERS HAVE PROVIDED NO COMPELLING REASON TO OVERTURN *BRULOTTE*

Petitioners devote virtually all of their brief to arguments designed to demonstrate that *Brulotte* was wrongly decided on the basis of a flawed analysis of patent law. Pet. Br. 9-49. They quote Judge Posner in support of their assertion that *Brulotte* incorrectly assumed that a patent license has significance after the patent terminates, and that the Court's incorrect assumption led it to conclude (erroneously) that royalty payments for post-expiration use constitute an extension of the 17-year patent monopoly granted by Congress:

> If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments on the value of the license during the patent period. These payments do not represent an extension in time of the patent monopoly.

Pet. Br. 21 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002)).

Marvel's brief raises substantial arguments in rebuttal. But WLF's purpose in filing this brief is not to take issue with Petitioners' economic analysis. Our purpose is to emphasize that whether or not *Brulotte* was correctly decided should not be the Court's principal focus. *See, e.g., Kurns v. Railroad Friction Products Corp.*, 132 S. Ct. 1261, 1270 (2012) (Kagan, J. concurring) (agreeing that a 1926 precedent—which construed a federal statute as preempting state-law products liability claims—required a finding that the statute preempted the plaintiffs' products liability claim, despite acknowledging that "I doubt this Court would decide [the 1926 case] in the same way today."). Rather, the decisive factor in the Court's analysis ought to be the doctrine of *stare decisis*. In light of Petitioners' failure to provide any compelling reason to overturn *Brulotte*'s interpretation of the patent laws, the Court should not do so. Congress has had numerous opportunities to overturn *Brulotte* over the past 50 years but to date has not chosen to do so. Any decision to overturn such a venerable interpretation of patent law should be made by Congress, not the courts.

A. Contracting Parties Have Relied on *Brulotte* for 50 Years; *Stare Decisis* Considerations Are at Their Acme in Cases Where Reliance Interests Are at Stake

When, as is true in the instance of *Brulotte*, numerous companies and individuals have been relying on one of the Court's decisions when negotiating contracts, adherence to the doctrine of *stare decisis* is particularly important. *See, e.g., Payne v. Tennessee*, 501 U.S. 808, 828 (1991) ("Considerations in favor of *stare decisis* are at their acme in cases involving property and contract rights, where reliance interests are involved."); *John R. Sand & Gravel Co. v. United States*, 552 U.S. 130, 146 (2008) (Ginsburg, J., dissenting) ("the strongest reason to adhere to precedent" is to protect reliance interests; when "citizens, in the private realm, have acted in reliance on a previous decision, . . . overruling the decision would dislodge settled rights and expectations.").

Indeed, the Court throughout its history has recognized that *stare decisis* principles are particularly important when individuals have acted in reliance on a prior decision. For example, in an 1851 case, in which the Court overturned an earlier decision, the Court stated flatly that *it would not have done so* had there been evidence that citizens had entered into contracts in reliance on the earlier decision:

> The case of the *Thomas Jefferson* did not decide any question of property, or lay down any rule by which the right of property should be determined. If it had, we should have felt

> ourselves bound to follow it notwithstanding the opinion we have expressed. For every one would suppose that after the decision of this court, in a matter of that kind, he might safely enter into contracts, upon the faith that rights thus acquired would not be disturbed. In such a case, *stare decisis* is the safe and established rule of judicial policy, and should always be adhered to. For if the law, as pronounced by the court, ought not to stand, it is in the power of the legislature to amend it, without impairing rights acquired under it.

The Propeller Genesee Chief v. Fitzhugh, 12 How. (53 U.S.) 443, 458 (1851).

The parties to this case apparently were unaware of *Brulotte* at the time they negotiated their Settlement Agreement in 2001. But it is reasonable to assume that many, if not most, attorneys negotiating patent licensing agreements are aware of *Brulotte*. Moreover, given the long-standing and widely established nature of that precedent, it is reasonable to assume that both attorneys representing patentees and those representing licensees routinely rely on *Brulotte* during negotiations.

For example, attorneys representing patentees can be expected to rely on *Brulotte* to demand both higher initial royalties and that a greater share of total royalty payments be made before the patent expires. Doing so will reduce the possibility that the licensee might later claim that post-expiration royalties are not merely deferred payments for pre-expiration use, but rather are payments for post-expiration use and thus

are barred by *Brulotte*. Attorneys representing licensees, on the other hand, are less likely (in light of *Brulotte*) to insist on inclusion of a detailed provision stating explicitly that royalty payments for use of the patent shall end once the patent expires. They are likely instead to focus their negotiating demands on other contract provisions.

Petitioners assert that "an authoritative consensus" favors a decision by this Court overruling *Brulotte*, and that the consensus includes three federal appeals court decisions that supposedly "have called on this Court to reconsider" *Brulotte*. Pet. Br. 13-18. That assertion is false. While each of the three cited decisions questioned *Brulotte*'s analysis, *none* of them called on the Court to reconsider or overrule *Brulotte*. Criticism of *Brulotte* is not equivalent to a call that its interpretation of patent law be overruled *by this Court*. Particularly in light of the strong reliance interests engendered by *Brulotte* over five decades, there is good reason to conclude that judicial critics of the decision would prefer that any reconsidering of the decision occur in Congress, not the courts.

Petitioners also assert that reliance on *Brulotte* by contracting parties is minimal. They assert that detrimental reliance could come into play "only where one of the parties purposely entered into an agreement in the hope of later avoiding its contractual obligations on the basis of *Brulotte*." Pet. Br. 57. They further assert, "[A] change in the law that would require parties to live up to their voluntarily-undertaken contractual obligations can hardly be said to upset their reasonable expectations." *Id.* at 57-58. Those assertions are patently inaccurate. A licensee cannot

be said to be "avoiding its contractual obligations" to pay royalties for post-expiration use of the patent if, in light of *Brulotte*, the contract would never be construed as imposing such an obligation. Moreover, even if the licensee reasonably believes that his contract (when construed without reference to *Brulotte*) does not require royalty payments for post-expiration use of the patent, a decision overruling *Brulotte* would increase the likelihood that he would be forced to defend a lawsuit claiming that the contract does, indeed, require post-expiration royalty payments.

Finally, regardless of whether they were actually aware of *Brulotte* when negotiating a royalty agreement, all licensees can be said to have relied on the decision in the sense that they relied on the normal course of dealing within that field of law. As Marvel has explained, treatises recognize that parties sometimes rely on background rules to leave certain contract terms unspecified. For example, in light of *Brulotte*, it has not been necessary to include a clause specifying an end date for royalty payments.

Attorneys for patentees are just as likely as attorneys for licensees to be aware of *Brulotte*, so they too would be aware that contracts would *not* be interpreted as requiring royalty payments for post-expiration patent use, even if the contracts failed to specify precisely when royalty-payment obligations would cease. Indeed, during their negotiations, attorneys for patentees are likely to have relied on *Brulotte* to demand increased up-front payments to compensate for the loss of back-end royalty payments barred by *Brulotte*. Yet, if the Court were now to overrule *Brulotte*, patentees who previously

successfully negotiated for increased up-front payments would be in a strong position to seek increased back-end royalty payments as well.

In assessing reliance interests, the Court has never demanded specific evidence that the parties themselves actually relied on the challenged precedent, so long as it is reasonably likely that others relied. *See, e.g., John R. Sand & Gravel Co.*, 552 U.S. at 139. As the Court explained, overturning well-settled precedent simply because it is deemed "no longer 'right'" can "prove harmful," because it "would inevitably reflect a willingness to reconsider others. And that willingness could itself threaten to substitute disruption, confusion, and uncertainty for necessary legal stability." *Ibid.*

B. *Stare Decisis* Has "Special Force" with Respect to Statutory Construction Decisions, Including Patent Law Decisions

Adherence to *stare decisis* is also particularly warranted because *Brulotte* was based on the Court's interpretation of a federal statute. The Court is somewhat more willing to re-examine its decisions interpreting the Constitution because those decisions are not subject to review by any other body. But because Congress is always free to "overrule" any of the Court's statutory decisions by amending the statute at issue, there is no similar rationale for restricting application of *stare decisis* in statutory cases. *See Halliburton v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2411 (2014) ("The principle of *stare decisis* has special force in respect to statutory interpretation because Congress remains free to alter what we have

done.") (citations omitted); *see also, id.* at 2407 ("Before overturning a long-settled precedent, we require special justification, not just an argument that the precedent was wrongly decided.").

Petitioners suggest that *Brulotte* did not really purport to interpret federal patent statutes but rather was an "atextual," common-law decision that was a "product of a misplaced fear of monopoly." Pet. Br. 49-50. That suggestion is belied by the text of *Brulotte*, which referred explicitly to provisions of the United States Code. *See, e.g.*, 379 U.S. at 30. The Court's cut-off date for patent royalties was not pulled out of thin air; rather, *Brulotte* held that royalties could accrue for 17 years but no longer because Congress at that time prescribed a 17-year life span for patents. *Id.* at 30-31 (citing 35 U.S.C. § 154 (1964)). It relied on prior Court decisions that had concluded that any attempt to derive profits from one's patent after its expiration "runs counter to the policy and purpose of the patent laws." *Id.* at 31 (quoting *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)). Some may take issue with the "policy and purposes of the patent laws" that the Court discerned based on its reading of those laws, but one cannot reasonably question that the Court intended its decision as an exercise in statutory interpretation.

C. The Court's Antitrust Case Law Is Irrelevant to the *Stare Decisis* Issue

Petitioners note that the Court has adhered to *stare decisis* less strictly when its antitrust law precedents are questioned and suggest that the Court apply that same less-strict standard here. Pet. Br. 55-

57. *See State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997) ("[T]he general presumption that legislative changes should be left to Congress has less force with respect to the Sherman Act in light of the accepted view that Congress expected the courts to give shape to the statute's broad mandate by drawing on common-law tradition."). That suggestion is without merit. As noted above, *Brulotte* involved an interpretation of patent law, not antitrust law.[4] Congress has not indicated that it provided federal courts with a "broad mandate" when it adopted the patent laws or that it expects the courts to "give shape" to patent statutes "by drawing on common-law tradition."

Although Petitioners cite several recent cases in which the Court overturned an antitrust precedent, Pet. Br. 55-56, reliance interests were not at stake in any of those cases. Each of the cited decisions overturned a precedent that had declared a specified business practice to constitute a *per se* violation of the Sherman Act, 15 U.S.C. § 1; each decision declared that henceforth the business practice would be examined under the rule of reason. *Continental T.V., Inc. v. GTE*

---

[4] Petitioners err in asserting that antitrust law is "closely related" to the statutory questions at issue here. Pet. Br. 55. Although *Brulotte* cited several antitrust precedents, those citations appear at the end of the opinion, and the Court made clear that the cited precedents were merely "analogous," not directly applicable to patent law. *Id.* at 33. Of particular note: *Brulotte* addressed a contract enforceability issue only; it held no more than that patent holders are barred from seeking royalty payments in some circumstances, even when the patent royalty agreement could plausibly be interpreted as authorizing such payments. In sharp contrast, those found to have violated federal antitrust laws are subject to both civil and criminal penalties.

Sylvania Inc., 433 U.S. 36 (1977) (restrictions on locations of franchisee sales); *State Oil Co. v. Khan*, 522 U.S. 3 (1997) (maximum vertical price restraints); *Leegin Creative Leather Prods., Inc. v. PSK, Inc.*, 551 U.S. 877 (2007) (minimum vertical price restraints). The reliance interests of most relevance in antitrust cases are the reliance interests of potential defendants; they are the ones who must conform their conduct to the antitrust laws. An antitrust defendant cannot, of course, be deemed to have relied to its *detriment* on a decision of this Court holding that a specified business practice constitutes a *per se* violation of the Sherman Act. If the decision is later overturned, the defendant can only benefit, because its conduct will now be subject to a less-demanding standard of review.[5]

On the other hand, were the Court asked to move in the opposite direction—to rule that a practice previously subject to rule-of-reason analysis should henceforth be subject to *per se* antitrust condemnation—substantial reliance issues would be at stake. Companies that had engaged in the practice would be subject to severe penalties even though they had reasonably concluded (under the rule-of-reason analysis prescribed by existing Court precedent) that the practice was pro-competitive. Detrimental-reliance concerns would almost surely cause the Court to balk when asked to overturn a rule-of-reason precedent, and at the very least would cause it to refrain from

---

[5] Thus, in explaining its willingness in *Leegin* to abandon *stare decisis*, the Court stated that the reliance interests at issue were minimal. *Id.* at 906.

applying the *per se* rule retroactively.[6]

Accordingly, the antitrust case law cited by Petitioners provides no support for their assertion that *stare decisis* applies with less force in this statutory case. Not only did those decisions arise in the entirely different context of antitrust law, but they also did not involve anything approaching the substantial reliance interests at stake here.

II. *BRULOTTE* ESTABLISHED A BRIGHT-LINE RULE THAT HAS NO ADVERSE ECONOMIC IMPACT AND DOES NOT INTERFERE WITH CONTRACTING RIGHTS

A. *Brulotte* Established a Clear, Easily Administered Background Rule Governing Enforcement of Contracts

The Court on occasion has reconsidered a decision construing a federal statute if that construction has proven difficult to administer or has led to confusion. But courts have not experienced difficulty in applying the straightforward *Brulotte* rule, and Petitioners do not seriously contend otherwise.

---

[6] When asked to overrule existing patent-law precedent, the Court on occasion has considered doing so on a prospective basis only. *See, e.g., Lear, Inc. v. Adkins*, 395 U.S. 653, 674 n.19 (1969). If the Court is otherwise inclined to overrule *Brulotte*, it may wish to consider doing so prospectively only, in order to minimize the adverse impact that such a decision would have on the reliance interests of parties to existing royalty agreements.

The Ninth Circuit summarized the *Brulotte* rule (as modified by *Aronson*) as follows:

> A license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate. This is because —in the absence of a discount or other clear indication that the license was in no way subject to patent leverage—we presume that the post-expiration royalty payments are for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*.

Pet. App. 18.

Neither the Ninth Circuit nor other federal courts have experienced difficulty in applying that long-standing rule when resolving royalty disputes. Nor have commentators asserted that parties have misunderstood the rule when negotiating royalty agreements. There can be little justification for the Court to overturn a statutory decision that Congress has declined to address for more than 50 years and that has created no administrative difficulties.

Nor can *Brulotte* be justly criticized for unduly interfering with the right of private parties to contract as they wish. *Brulotte* affords contracting parties considerable leeway in establishing royalty rates for use of a patent. At bottom, *Brulotte* does little more than establish a contract-construction rule that is not materially different from numerous other, long-

standing contract-construction rules.

Many well-accepted contract-construction rules are imposed without regard to the actual intent of the contracting parties. For example, under the Uniform Commercial Code (adopted in all 50 States), every contract for the sale of goods by a merchant is presumed to include an implied warranty of merchantability unless explicitly modified—regardless whether the contracting parties actually contemplated the existence of a warranty. U.C.C. § 2-314. Even though a party to a contract generally expects the other party to perform as promised, contract law generally permits a breaching party to pay damages in lieu of performance. *See* John D. Calamari & Joseph M. Perillo, *The Law of Contracts* §§ 16.1 - .6 (4th ed. 1998). This Court authorizes patent licensees to file suit challenging the validity of the patent, even if their license agreements explicitly prohibits such lawsuits. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). The *Brulotte* rule—by barring enforcement of royalty agreements to the extent that they require payments for post-expiration use of a patent—is not materially different. It simply forces patent holders seeking to license their patents to contract for other forms of compensation.

Petitioners repeatedly assert that *Brulotte* was wrongly decided and was based on a flawed analysis of patent law. But at the end of the day, establishing and maintaining a settled interpretation of the law is far more important than revisiting precedents in an effort to reach the "right" interpretation. As the Court has observed, "[I]n most matters it is more important that the applicable rule of law be settled than that it be settled right." *John R. Sand & Gravel Co.*, 352 U.S. at

139 (quoting *Burnet v. Coronado Oil & Gas Co.*, 285 U.S. 393, 406 (1932) (Brandeis, J., dissenting)).

B. *Brulotte* Affords Contracting Parties Broad Leeway in Establishing Compensation Terms Governing Patent Use

Many of the *amici* supporting Petitioner criticize *Brulotte* because, they allege, it unduly interferes with the ability of patent holders to enter into profitable licensing agreements. As Marvel has explained, those criticisms are based on a misunderstanding of the scope of the *Brulotte* rule.

In particular, *Brulotte* bars accrual of royalties for post-expiration use, but it does *not* bar post-expiration payments for pre-expiration use. The Court recognized in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969), that license agreements may enforceably provide that royalty payments are to be spread out over an extended period of time, even if that time extends past the patent expiration date. *Brulotte* itself similarly contemplates "deferred payments for use during the pre-expiration period." *Brulotte*, 379 U.S. at 31. Accordingly, a patentee can demand during contract negotiations that prospective licensees pay the full value of using the patented item during the life of the patent; and if a prospective licensee objects that cash flow prevents it from paying full value immediately, nothing in *Brulotte* bars patentees from obtaining full value on a deferred basis.

Moreover, those who criticize *Brulotte*'s analysis invariably assert that the Court erred in assuming that

a patent has *any* value after it has expired; they assert that a contract specifying royalty payments for post-expiration use is necessarily just another form of deferred payment for pre-expiration use. *See, e.g.*, *Scheiber*, 293 F.3d at 1017 (Posner, J.) ("If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments on the value of the license during the patent term."). If that analysis is accurate, patent holders lose nothing by being required to designate post-expiration royalty payments as deferred payments for pre-expiration use rather than as payments for post-expiration use.

C. Concerns That Patent Terms Are Too Short to Encourage Investment in Promising Academic Research Should Be Addressed to Congress

The *amicus* brief filed by Memorial Sloan Kettering Cancer Center asserts that *Brulotte* inhibits licensing of promising academic research whose value cannot easily be realized during the life of the patent. But if the research is truly promising, one could expect venture capitalists to provide the funding necessary for commercialization. Of course, the possibility that research will never be successfully commercialized will reduce the amount that potential licensees are willing to pay to license the patent. But that fact simply suggests that the patent is not as valuable as its owner would like it to be. Recent history does not suggest an unwillingness of venture capitalists to finance efforts to commercialize basic research when the potential reward is sufficiently large, even when the risk of failure is significant. The only conceivable effect of *Brulotte* on such ventures is to require parties to

calculate royalty payments based on a pre-expiration estimation of the risk/reward ratio, thereby imposing a greater share of the risks (as well as potential rewards) on licensees.

In reality, Memorial Sloan Kettering is making an altogether different argument: the many years required to commercialize basic research suggests that patent terms ought to be extended (at least for certain types of inventions) to ensure that the potential public benefits of those inventions can be fully realized. There is much to be said for that argument, but that is an argument that ought to be addressed to Congress, not this Court. Indeed, Congress was responding to such concerns when, in 1984, it adopted the Drug Price Competition and Patent Term Restoration Act, Pub. L. No. 98-417 (the "Hatch-Waxman Act"), which, among other things, extended the patent term for innovative, life-saving drugs whose marketing was delayed by the regulatory approval process. In doing so, Congress sought to ensure that pharmaceutical companies had sufficient economic incentives to make the massive research-and-development expenditures necessary to bring new drugs to market. A similar amendment to the patent laws governing patents on basic research could address Memorial Sloan Kettering's concerns in a manner that a decision to overrule *Brulotte* could not.

III. OVERTURNING *BRULOTTE* WILL LEAD TO INCREASED LITIGATION OVER LONG-FORGOTTEN LICENSE AGREEMENTS

A principal effect of *Brulotte* has been to impose a finite life span on patent license agreements. Even when an agreement did not clearly specify an end date for the obligation to pay patent royalties, licensees could be reasonably confident that they would face few royalty claims once the patent term had expired.

A decision to overturn *Brulotte* would eliminate that peace of mind. In a world where patent trolls are thriving and litigation funding is rampant, "zombie" litigation—in which long-ago licenses are dredged up for new rounds of litigation—is an all-too-likely response to a decision overturning *Brulotte*.

Licensees could, of course, protect themselves going forward by insisting that license agreements include detailed provisions barring any claims for royalties based on post-expiration use of the patent. But licensees who signed agreements before 2015, and who thus did not insist on such provisions based on their reasonable reliance on *Brulotte*, would lack such protection. Even if a licensee is reasonably confident that a court would not construe his contract as authorizing post-expiration accrual of royalties, such confidence is of little consolation if an attorney representing the patentee sends a letter demanding royalties and threatening litigation unless royalties are paid.

If *Brulotte* is overturned, Marvel's experience

could be replicated many times over. Marvel continues to face royalty claims under the 2001 Settlement Agreement even though: (1) it has paid more than $6 million in royalties; (2) the patent expired five years ago; (3) the "role play" toys marketed after 2010 are significantly different from the 2001 "Web Blaster" toys specified in the Settlement Agreement; and (4) Petitioners have largely backed away from their claims that post-2010 toys are covered by the '856 Patent. If *Brulotte* is overturned, one could reasonably expect patentees to begin asserting royalty claims of an even more tenuous nature. A principal purpose of *stare decisis* is to prevent problems of that very sort.

CONCLUSION

Amicus curiae Washington Legal Foundation requests that the Court affirm the judgment of the court of appeals.

Respectfully submitted,

Richard A. Samp
(Counsel of Record)
Markham S. Chenoweth
Washington Legal Foundation
2009 Massachusetts Avenue, NW
Washington, DC 20036
(202) 588-0302
rsamp@wlf.org

Dated: March 6, 2015

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
MAR 6 - 2015
OFFICE OF THE CLERK

No. 13-720

IN THE

Supreme Court of the United States

STEPHEN KIMBLE, ET AL.,
PETITIONERS,

V.

MARVEL ENTERPRISES, INC.,
RESPONDENT.

On Writ of Certiorari to the
United States Court of
Appeals for the Ninth Circuit

BRIEF OF *AMICUS CURIAE* WILLIAM MITCHELL COLLEGE OF LAW INTELLECTUAL PROPERTY INSTITUTE IN SUPPORT OF RESPONDENTS

R. CARL MOY
Counsel of Record
William Mitchell College of Law
Intellectual Property Institute
875 Summit Avenue
Saint Paul, MN 55105
(651) 290-6344

MARCH 6, 2015

TABLE OF CONTENTS

TABLE OF AUTHORITIES ii

INTEREST OF *AMICUS CURIAE* . . 1

SUMMARY OF ARGUMENT . . 2

ARGUMENT 3

A. This Court has Already Rejected the Assumptions on Which Petitioner's Position Rests 3

B. *Brulotte* is Supported by a Century of This Court's Decisions . . . 9

CONCLUSION 14

TABLE OF AUTHORITIES

CASES

page

A.B. Dick Co. v. Milwaukee Office Specialty Co., 168 F. 930 (C.C.E.D. Wis. 1908) 6

Adams v. Burke, 84 U.S. 453 (1873) 3

Aeolian Co. v. Harry H. Juelg Co., 155 F. 119 (C.C.A. 2d Cir. 1907) 6

Bauer & Cie v. O'Donnell, 229 U.S. 1 (1913) 2, 4, 7, 9

Bobbs-Merrill Co. v. Straus, 210 U. S. 339 (1908) 7

Boston Store of Chicago v. American Graphophone Co., 246 U.S. 8 (1918) . . 2, 4, 10

Brulotte v. Thys Co., 379 U.S. 29 (1964) . . passim

Carbice Corporation of America v. American Patents Development Corporation, 283 U.S. 27 (1931) 8, 11

Commercial Acetylene Co. v. Autolux Co., 181 F. 387 (C.C.E.D. Wis. 1910) 6

Cortelyou v. Lowe, 111 F 1005 (C.C.A. 2d Cir. 1901) 6

Ethyl Gasoline Corporation v. U.S.,
309 U.S. 436 (1940) 8, 11, 13

General Talking Pictures Corporation v. Western Electric Co., 305 U.S. 124 (1938) 8, 11

Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co., 77 F. 288 (C.C.A. 6th Cir. 1896) 4, 5

Henry v. A.B. Dick Co., 224 U.S. 1 (1912) . . 4-7

Keeler v. Standard Folding Bed Co., 157 U.S. 659 (1895) . . 3

Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944) . . . 13

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917) 2, 4, 8

National Phonograph Co. v. Schlegel, 128 F. 733 (C.C.A. 8th Cir. 1904) 6

Rupp & Wittgenfeld Co. v. Elliott, 131 F 730 (C.C.A. 6th Cir. 1904) . . . 6

Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945) . . 3, 12

Straus v. Victor Talking Mach. Co., 243 U.S. 490 (1917) . 2, 4, 8, 10

The Fair v. Dover Mfg. Co.,
166 F. 117 (C.C.A. 7th Cir. 1908) 6

U.S. v. General Electric Co.,
272 U.S. 476 (1926) 8, 11

U.S. v. Masonite Corporation,
316 U.S. 265 (1942) 8, 11

U.S. v. Univis Lens Co., 316 U.S. 241 (1942) . 8, 11

United States v. Motion Picture Patents Co.,
225 F. 800 (E.D. Pa. 1915) 9

Victor Talking Mach. Co. v. The Fair,
123 F. 424 (C.C.A. 7th Cir. 1903) 6

Zenith Radio Corp. v. Hazeltine Research, Inc.,
395 U.S. 100 (1969) 3, 13

STATUTES AND LEGISLATIVE MATERIALS

page

35 U.S.C. §154 2

Machlup, Fritz, An Economic Review of the Patent System, Study no. 15 of the Subcommittee on Patents, Trademarks, and Copyright of the Committee of the Judiciary of the United States Senate, 85th Cong., 2nd Sess., (1958) 9

SECONDARY AUTHORITIES

page

Robinson, William C., A Treatise on the Law of Patents for Useful Inventions §§ 915, 916 (1890) 5

Vaughan, The Economics of Our Patent System (1925) 6

INTEREST OF *AMICUS CURIAE*[1]

The Intellectual Property Institute is an entity within William Mitchell College of Law. The mission of the Institute is to foster and protect innovation through education, research, and service initiatives. Among its activities, the Institute advocates for the responsible development and reform of intellectual property law, including patent laws and the patent system of the United States. A purpose of the Institute is to raise issues and arguments in light of the public interest and the best interests of the patent system as a whole. The Institute has no financial interest in any of the parties to the current action.

---

[1]Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. Additionally, counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court.

SUMMARY OF ARGUMENT

Petitioner and many of their *amici* misperceive the basic nature of this Court's decision in *Brulotte v. Thys Co.*[2] That decision is not based on the law of antitrust; it does not assume nor require that the subject patent confer market power.

Instead, *Brulotte* is part of a long series of decisions by this Court that develop and apply a specific interpretation of the patent statute.[3] Under this interpretation, the patent owner's rights in the patented invention do not resemble the rights that exist over traditional forms of property. Rather, the patent owner possesses only the rights that are stated in the patent grant expressly: the right to permit making, to permit use, to permit sale, and so on.[4]

This statutory interpretation was announced by this Court over a century ago.[5] At that time, it overturned an entire of line decisions that viewed patent owners' rights much more expansively. Since

---

[2] *Brulotte v. Thys Co.*, 379 U.S. 29, 31 (1964).

[3] *See, e.g., Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

[4] 35 U.S.C. §154.

[5] *See, e.g., Bauer & Cie v. O'Donnell*, 229 U.S. 1, 16-17 (1913). *See also, e.g., Straus v. Victor Talking Mach. Co.*, 243 U.S. 490 (1917); *Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8 (1918).

then, it has been adhered to, and has formed the basis for both the legal rules relating to patent exhaustion and patent misuse.

The holding in *Brulotte* is itself a short, rather unremarkable extension of these principles to the enforceability of patent licenses.[6] The Institute believes that it is not especially troubling, and should be retained. Overruling *Brulotte*, in contrast, would risk calling the entire line of related cases into question.

ARGUMENT

A. This Court has Already Rejected the Assumptions on Which Petitioner's Position Rests

Petitioner would have this Court believe that the reasoning in *Brulotte* is outmoded, and that adopting Petitioner's own analysis would be a modernizing improvement. The truth is exactly the opposite. Stripped to its basics, Petitioner's analysis repeats a view of patent owners' rights that was being espoused at least as early as the 19th Century.[7] Indeed, United

---

[6] *See generally, e.g., Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136–37 (1969).

[7] *See, e.g., Adams v. Burke*, 84 U.S. 453, 457 (1873) (J. Bradley, dissenting); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 667 (continued...)

States patent law adopted that view as controlling for several decades in late 19th and early 20th Centuries.[8] The law and business practices that developed during that time proved highly unacceptable and, beginning in 1913, this Court discarded them in favor of a sharply different view.[9] Under this newer analysis the rights of the patent owner are much more limited, and insufficient to support the modifications to *Brulotte* that Petitioner is suggesting.

These earlier, now discarded decisions arose from the need to determine whether patent owners could restrict the handling of patented articles after transferring them to a customer. Starting in 1896, with the Sixth Circuit decision *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*,[10] the lower courts settled for a time on the view that such restrictions would be given effect, provided that the patent owner had imposed them expressly in the initial

---

[7](...continued)
(1895) (J. Brown, dissenting).

[8]*See, e.g., Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288 (C.C.A. 6th Cir. 1896); *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912).

[9]*See, e.g., Bauer & Cie v. O'Donnell*, 229 U.S. 1, 17 (1913); *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917); *Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8, 23-24 (1918).

[10]*See, e.g., Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288 (C.C.A. 6th Cir. 1896).

transaction.

The *Button-Fastener* decision viewed the patent owner as having rights that were extensive. Under *Button-Fastener*, the patent owner could impose restrictions not only by contract, but also by withholding a portion of the title to the patented article being transferred.[11] Authorities from the time make it clear that this view was based on an extensive analogy between rights in patented inventions and rights in other forms of property,[12] coupled with freedom-of-contract.[13]

---

[11] *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288 (C.C.A. 6th Cir. 1896).

[12] *See, e.g., Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 291 (C.C.A. 6th Cir. 1896); *Henry v. A.B. Dick Co.*, 224 U.S. 1, 24 (1912) ("The property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale be unconditional. But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded. This right to sever ownership and use is deducible from the nature of a patent monopoly and is recognized in the cases.").

[13] *See, e.g., Henry v. A.B. Dick Co.*, 224 U.S. 1, 17-18 (1912) ("The books abound in cases upholding the right of a patentee owner of a machine to license another to use it, subject to any qualification in respect of time, place, manner, or purpose of use which the licensee agrees to accept.").

See also, e.g., 3 Robinson, William C., A Treatise on the Law

(continued...)

The result was, for a time, a system that allowed patent owners to impose restrictions on patented chattel similar to restrictive covenants and equitable servitudes in real estate. In it, patent owners were able to sue as infringers even remote persons who had come into possession of the patented articles by repurchase, if the new possessor's activities were beyond the restrictions imposed on the initial transferee.

As this analysis gained acceptance, the practice of restricting title in patented articles became commonplace.[14] Frequently this involved imposing limits on the price at which the patented article could be resold, and requiring that unpatented supplies be purchased from the patent owner. This latter type of restriction then led to suits against suppliers of staple articles, for contributory infringement.

---

[13](...continued)
of Patents for Useful Inventions §§ 915, 916 (1890).

[14] *See, e.g., Cortelyou v. Lowe,* 111 F. 1005 (C.C.A. 2d Cir. 1901); *Victor Talking Mach. Co. v. The Fair,* 123 F. 424 (C.C.A. 7th Cir. 1903); *National Phonograph Co. v. Schlegel,* 128 F. 733 (C.C.A. 8th Cir. 1904); *Aeolian Co. v. Harry H. Juelg Co.,* 155 F. 119 (C.C.A. 2d Cir. 1907); *The Fair v. Dover Mfg. Co.,* 166 F. 117 (C.C.A. 7th Cir. 1908); *Rupp & Wittgenfeld Co. v. Elliott,* 131 F. 730 (C.C.A. 6th Cir. 1904); *A.B. Dick Co. v. Milwaukee Office Specialty Co.,* 168 F. 930 (C.C.E.D. Wis. 1908); *Commercial Acetylene Co. v. Autolux Co.,* 181 F. 387 (C.C.E.D. Wis. 1910); *Henry v. A.B. Dick Co.,* 224 U.S. 1 (1912).

See also, e.g., Vaughan, The Economics of Our Patent System 258 (1925).

For about 15 years, this view based on property and freedom-of-contract spread without direct approval from this Court. Finally, this Court indicated its approval in a 1912 decision, *Henry v. A.B. Dick Co.*[15] There, the majority of a divided Court relied on the view to approve a suit for contributory infringement against the seller of unpatented supplies.

The very next year, however, this Court began what proved to be a permanent break from the preceding decisions. In a 1913 decision, *Bauer & Cie v. O'Donnell,*[16] the Court refused to apply the reasoning of *Button-Fastener* and *A.B. Dick* to resale price maintenance. Instead, the Court adopted the reasoning of a 1908 copyright decision, *Bobbs-Merrill Co. v. Straus.*[17] According to *Bauer & Cie,* the patent owner enjoyed no special power to insist that transferees resell the patented articles for a particular price. Rather, the grant in the patent statute, of the right to control "vend[ing]" of the patented invention, was indivisible: it could be either transferred or withheld; it could not be transferred on the further condition that a resale price be maintained.[18]

Bauer & Cie proved to be a watershed event; afterward a series of cases by this Court adopted the

---

[15] *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912).

[16] *Bauer & Cie v. O'Donnell,* 229 U.S. 1 (1913).

[17] *Bobbs-Merrill Co. v. Straus,* 210 U. S. 339 (1908).

[18] *Bauer & Cie v. O'Donnell,* 229 U.S. 1, 17 (1913).

holding in *Bauer & Cie* and expanded it to related circumstances.[19] This included a pair of decisions, *Straus v. Victor Talking Machines,*[20] and *Motion Picture Patents,*[21] that were handed down in 1917. In particular, *Motion Picture Patents* extended the rationale in *Bauer & Cie* to the patent owner's statutory right to use.[22] In doing so it expressly overruled *A.B. Dick,*[23] thereby extinguishing that entire line of cases.

---

[19] *See, e.g., U.S. v. General Electric Co.,* 272 U.S. 476, 492-93 (1926); *Carbice Corporation of America v. American Patents Development Corporation,* 283 U.S. 27, 31 (1931); *General Talking Pictures Corporation v. Western Electric Co.,* 305 U.S. 124, 185, n.4 (1938); *Ethyl Gasoline Corporation v. U.S.,* 309 U.S. 436, 456 (1940); *U.S. v. Masonite Corporation,* 316 U.S. 265, 278 (1942); *U.S. v. Univis Lens Co.,* 316 U.S. 241, 250 (1942).

[20] *Straus v. Victor Talking Mach. Co.,* 243 U.S. 490 (1917).

[21] *Motion Picture Patents Co. v. Universal Film Mfg. Co.,* 243 U.S. 502 (1917).

[22] *See, e.g., Motion Picture Patents Co. v. Universal Film Mfg. Co.,* 243 U.S. 502, 513 (1917)("Whatever the right of the owner may be to control by restriction the materials to be used in operating the machine, it must be a right derived through the general law from the ownership of the property in the machine, and it cannot be derived from or protected by the patent law, which allows a grant only of the right to an exclusive use of the new and useful discovery which has been made,—this and nothing more.").

[23] *Motion Picture Patents Co. v. Universal Film Mfg. Co.,* 243 U.S. 502 (1917) ("It is obvious that the conclusions arrived at in this opinion are such that the decision in *Henry v. A.B. Dick Co.,* must be regarded as overruled.").

The statutory construction set out in *Bauer & Cie* has proved to be extremely durable over time. It has been relied upon in decisions of this Court consistently. During that time there has been no serious movement backwards to the earlier rationale based on property and freedom-of-contract.

B. *Brulotte* is Supported by a Century of This Court's Decisions

Brulotte is one of the later decisions by this Court that further develop the statutory interpretation set out in *Bauer & Cie* and *Motion Picture Patents*. When viewed in its proper context, the decision is not an outlier. Nor is it a decision that deals with the law of antitrust.[24] Instead, it represents a rather

---

[24]The reference to "patent monopoly" in *Brulotte* does not indicate that the decision assumes patent rights confer a monopoly in the antitrust sense. Rather, the words "patent monopoly," often refer to the exclusive nature of the patent owner's statutory control over the patented invention. *See, e.g., Bauer & Cie v. O'Donnell*, 229 U.S. 1, 11 (1913) ("In the exclusive rights to make, use, and vend . . . reside the extent of the patent monopoly under the statutes of the United States."); *United States v. Motion Picture Patents Co.*, 225 F. 800, 804-05 (E.D. Pa. 1915) ("[T]he owner of the patent has the exclusive right to sell his patented article. This is, in a very substantial sense, a monopoly. It must be, however, that the monopoly here meant is not the monopoly condemned by the [Sherman] act of 1890."). *See also, e.g.*, Machlup, Fritz, An Economic Review of the Patent System, Study no. 15 of the Subcommittee on Patents, Trademarks, and Copyright of the Committee of the Judiciary of the United States Senate, 85th Cong., 2nd Sess., at 26-28 (1958).

short, unremarkable extension of the preceding law.

This can be seen by examining one particular line of decisions that followed *Bauer & Cie* and *Motion Picture Patents*. Those two initial decisions dealt with patent owners' attempts to restrict patented articles by limited transfer of title. They left open, however, the related question of how their rationale should impact attempts to impose restrictions by contract.

Early cases that addressed this question of contract, such as *Straus v. Victor Talking Machine*[25] and *Boston Store of Chicago v. American Graphophone Co.*,[26] essentially held that practices by the patent owner could not be shielded from *Bauer & Cie* and *Motion Picture Patents* by recasting the relationships as contractual. That is, where the substance of the relationship between the patent owner and the defendant was the same as what had been held objectionable in prior decisions, the contracts were unenforceable.

Obviously, though, this did not encompass the entire range of contractual terms that existed in patent transfers. Accordingly, over time this Court has issued various decisions that apply *Bauer & Cie* and *Motion Picture Patents* to the enforceability of

---

[25] *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490 (1917).

[26] *Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8 (1918).

contracts.[27]

Contrary to the assertions of the Petitioner and their *amici,* the decisions in this line are *not* based on a determination of whether the patent owner's activities violated the laws of antitrust, or even the more limited question of whether the involved patent rights conferred market power. Rather, the decisions continued to concern themselves with the basic statutory construction first applied to patent rights in *Bauer & Cie.*

This can be seen in the rule that the decisions settled upon. Very quickly this Court determined that contracts between the patent owner and a transferee could contain "any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."[28] Conditions beyond this, in

---

[27] *See, e.g., U.S. v. General Electric Co.,* 272 U.S. 476, 492-93 (1926); *Carbice Corporation of America v. American Patents Development Corporation,* 283 U.S. 27, 31 (1931); *General Talking Pictures Corporation v. Western Electric Co.,* 305 U.S. 124, 185, n.4 (1938); *Ethyl Gasoline Corporation v. U.S.,* 309 U.S. 436, 456 (1940); *U.S. v. Masonite Corporation,* 316 U.S. 265, 278 (1942); *U.S. v. Univis Lens Co.,* 316 U.S. 241, 250 (1942).

[28] *U.S. v. General Electric Co.,* 272 U.S. 476, 489 (1926).

See also, e.g., General Talking Pictures Corporation v. Western Electric Co., 305 U.S. 124, 127 (1938) ("As was said in *U.S. v. General Electric Co.,* 272 U.S. 476, 489 (1926) the patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant

(continued...)

contrast, were held unenforceable.

Brulotte is part of this line of cases that applies the holdings of *Bauer & Cie* and *Motion Picture Patents*. Its own holding – that the patent owner may not require the transferee to pay for access to the patented invention after the patent has expired – is explained directly by reference to the patent statute. The principle that the patent owner has no rights in the patented invention once the patent expires is basic to the patent system.[29] It involves none of the nuances that arise when determining whether, for example, the rights to vend or to use can be divided or made subject to an equitable servitude. Therefore, if the patent statute generally does not support the enforceability of a contract to restrict resale or use during the patent term, it is relatively easy to conclude that a contractual provision insisting on post-expiration royalties must be unenforceable as well.

This is consistent with the language of *Brulotte* itself, which refers to the principles set out in the

---

[28](...continued)
of the patent is entitled to secure.' ").

[29] *See, e.g., Brulotte v. Thys Co.*, 379 U.S. 29, 31 (1964) ("'[A]ny attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws.'") (*quoting Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)).

relevant earlier decisions of this Court.[30]

---

[30] *See, e.g., Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964) ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones.") (*citing Ethyl Gasoline Corporation v. U.S.*, 309 U.S. 436 (1940); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 664-665 (1944)).

See also, e.g., Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 136-37 (1969) ("*Brulotte* thus articulated in a particularized context the principle that a patentee may not use the power of his patent to levy a charge for making, using, or selling products not within the reach of the monopoly granted by the Government.").

CONCLUSION

For the forgoing reasons, the Institute respectfully submits that the this Court's prior decision in *Brulotte v. Thys Co.* should be sustained.

Respectfully submitted,

Date: March 6, 2015

R. CARL MOY
Professor of Law
William Mitchell College of Law
Intellectual Property Institute
875 Summit Avenue
St. Paul, Minnesota 55105
Ph. (651) 290-6344
Fax (651) 290-6406
Counsel of Record

William Mitchell College of Law
Intellectual Property Institute
Counsel for amicus curiae